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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19-35

TUESDAY, JUNE 28, 1966-67

APRIL 25

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES

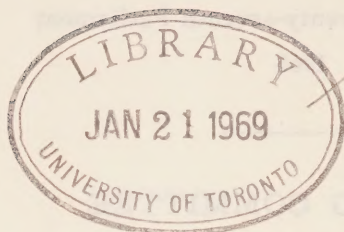
Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; *From the Transport Department:* Mr. J. R. Baldwin, Deputy Minister; Mr. J. R. Strang, Director, Shipbuilding Branch; Mr. G. C. Tilley, Departmental Financial Advisor; and Mr. H. J. Darling, Chairman, Canadian Maritime Commission.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Schreyer,
Mr. Ballard,	Mr. Gilbert,	Mr. Southam,
Mr. Bigg,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Cameron	Mr. McLean (<i>Charlotte</i>),	Mr. Tardif,
(<i>High Park</i>),	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
Mr. Dionne,	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Flemming,	Mr. Noble,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

CORRECTION—(English Copy Only)

MINUTES OF PROCEEDINGS AND EVIDENCE—Tuesday, June 7, 1966.

On Page 617 APPENDIX "J" should read APPENDIX "5"

MINUTES OF PROCEEDINGS

TUESDAY, June 28, 1966.
(26)

The Standing Committee on Public Accounts met this day at 11.15 a.m. The Chairman, Mr. A.D. Hales presided.

Members present: Messrs. Baldwin, Ballard, Flemming, Gendron, Hales, Leblanc (Laurier), Lefebvre, McLean (Charlotte), Schreyer, Southam, Tardif (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada: Messrs. Long, Laroche and Wyatt of the Auditor Generals office;

From the Transport Department: Mr. J. R. Baldwin, Deputy Minister; Mr. J. R. Strang, Director, Shipbuilding Branch; Mr. G. C. Tilley, Departmental Financial Advisor; and Mr. H. J. Darling, Chairman, Canadian Maritime Commission.

The Chairman read into the record a letter received from Mr. S. B. Williams, Chairman, Agricultural Stabilization Board respecting losses due to theft of butter, correcting evidence given before the Committee on June 21, 1966. Attached to the letter was a report respecting butter thefts. It was unanimously agreed to append this report to the Minutes of Proceedings and Evidence as "APPENDIX 6".

An analysis of the previous year's uncollectable accounts receivable of the Department of Finance submitted by the Comptroller of the Treasury in accordance with the Committee's request on June 16, 1966 was appended to today's Minutes of Proceedings and Evidence as "APPENDIX 7".

Discussion arose respecting the value of a report to the Committee by the Comptroller of the Treasury, listing travelling expenses of employees in excess of \$1,000 and payments to suppliers in excess of \$100,000. (EXHIBIT X). At the Committee meeting, June 16, 1966, Mr. Balls, Comptroller of the Treasury, suggested that elimination of this report would mean an annual saving of \$10,000.

Before making a decision, the Committee agreed to request a report from the Comptroller of the Treasury respecting how this cost of \$10,000 is estimated.

The Chairman introduced Mr. J. R. Baldwin, Deputy Minister of Transport and his associates, who were examined on the following items from the Auditor General's Reports 1964:

Paragraph 83—Damage to Coast Guard vessel.

Paragraph 84—Financial consequence of faulty ship design.

Paragraph 85—Repairs and alterations to Canadian Coast Guard ships.

Paragraph 86—Contracts for cleaning of public premises.

Paragraph 88—Defalcation at Gander Airport.

At 1.00 p.m., discussion still continuing, the Chairman adjourned the meeting to 3.30 p.m. this day.

AFTERNOON SITTING

(27)

The Standing Committee on Public Accounts met this day at 3.45 p.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Ballard, Dionne, Gendron, Hales, Leblanc (Laurier), Lefebvre, McLean (Charlotte), Muir (Lisgar), Noble, Schreyer, Southam (12).

Also present: Mr. LeBlanc (Rimouski).

In attendance: (same as at morning sitting)

The Committee resumed its examination of the Deputy Minister of Transport and departmental officials covering the following items in the Auditor General's reports 1964 and 1965:

Paragraph 88, 1964 Report—Defalcation at Gander International Airport—correction of a statement made at morning sitting.

Paragraph 164, 1964 Report; Paragraph 214, 1965 Report—Airport Operations.

Appendix 2—Non-productive Payments, 1964 Report. 32.—Cost of access road, Chatham Point, B.C. 33.—Cost of unsuccessful attempt to reconstruct lock entrance wall, Bobcaygeon, Ontario.

Canadian Maritime Commission

Paragraph 87, 1964 Report—Federal contribution to cost of ferry vessel.

The following items were covered in the Auditor General's Report 1965:

Paragraph 127—Claims resulting from completion of air terminal building ahead of schedule.

Paragraph 128—Cost of re-roofing air terminal building, Gander, Nfld.

Paragraph 129—Cost of salvaging sunken vessel.

Paragraph 130—Cost of abandoned design plans for ferry vessel.

Paragraph 131—Purchase and conversion of ferry vessel.

Paragraph 132—Cost of faulty planning in ferry design.

Paragraph 133—Cost of changing vessel design.

Paragraph 134—Cost of altering vessel design plans.

Paragraph 135—Cost of "dead freight".

Canadian Maritime Commission

Paragraph 136—Subsidizing of intra-provincial ferry service.

Paragraph 137—Subsidy for the construction of a floating fish processing plant, Liverpool, N.S.

At 5.50 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, June 28, 1966.

● (11.17 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. It is a very warm morning; if you would feel more comfortable with your coats off, feel at liberty to remove them.

An hon. MEMBER: It is going to be a hot meeting.

The CHAIRMAN: Well, it might develop into that.

Mr. BALDWIN: Mr. Chairman, I just want to mention for the record that assiduity to duty which characterizes members of this party; I tore myself away from the Divorce Committee to come to this one. That is a considerable sacrifice.

The CHAIRMAN: You divorced yourself from the Divorce Committee. It is always nice to start the meeting in such a happy frame of mind.

Gentlemen, at the last meeting we had before us as witnesses members of the Department of Agriculture. I have here a letter from Mr. S. B. Williams, chairman of the Agricultural Stabilization Board, who gave evidence previously. In his letter Mr. Williams requests that a correction be made in his evidence, and I would like to read to you his very brief letter which has been forwarded to your Chairman. This letter is dated June 21, 1966.

Dear Mr. Hales,—

Earlier today I gave evidence before the Public Accounts Committee in respect of losses suffered by the Agricultural Stabilization Board due to theft of butter. In giving this evidence I stated that recovery had been made of losses suffered in the case of the theft of butter from a truck of John Little & Son of Montreal at the time the butter was being transported from storage to the harbour. I regret that the information I gave at that time was not correct and that the Board has not been able to effect recovery of the losses suffered because of this theft. The Board were originally informed that the cartage firm had insurance coverage and that the Board would be reimbursed. The Board claimed against the cartage firm and the claim was referred to the insurance agency. The insurance agency notified the Board that under Quebec law there was no responsibility on the part of the insurance agency for a loss of this nature. This was checked with the departmental legal advisor who concurred in the opinion of the insurance agency. The Board, therefore, was unable to recover the loss.

I am attaching a copy of the report requested by your Committee in respect of visits prior to the dates of the butter thefts of departmental inspectors to the properties from which the butter was stolen.

If it is your wish I would table as an Appendix to our Minutes the other portion of this letter.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: You will recall that the Committee asked Mr. Balls, Comptroller of the Treasury, for a list of uncollectable accounts receivable of the Department of Finance and he has supplied this information. With your concurrence this also will be tabled as an Appendix.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Henderson, have you any observations?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, I have two items also which I should advise the Committee about.

You will recall discussing paragraph 226 of my 1965 report, while Mr. Bryce and the members of the department of finance were present. This paragraph dealt with the custodian and a reference was made to the following statement in the note in my report and I will quote it to you:

The income from fees on assets released from administration did not increase proportionately with the value of assets released during the year due to a comparatively large settlement having been made without fee.

We were asked what circumstances justified the release of these assets during the year without the charging of a fee. This was a case involving \$753,238 where conflicting interests were settled under two international agreements. One of the claimants was a national of one country, the other being the custodian of another country, that is to say the official custodian. The national's country was a signatory to the 1947 Brussels Agreement relating to the resolution of conflicting claims to German enemy assets. The custodian's country had an agreement with Canada which is known as the 1945 Proposals for settlement of Certain Problems arising under Conflicting Custodian Control, under which that custodian had the right to the entire amount. The conflicting claims were settled on a fifty-fifty basis with no fee being charged by the custodian, that is to say our own Canadian custodian. The reasons for not charging the fee were as follows: Firstly, a fee is chargeable at the discretion of the custodian but it is not mandatory. Secondly, by agreement no custodian fee is charged with respect to assets which are relinquished to another custodian. And finally, the custodian and the War Claims Fund benefitted from the earnings of the moneys for more than 23 years.

We had some discussion with the custodian and his officials regarding this at the conclusion of our audit. I felt, that it was a matter that should be brought to the attention of the Committee, which explains why I placed that reference in my 1965 report.

With your permission, Mr. Chairman, I will refer now to the other matter. It will be recalled at the same meeting with the Department of Finance, Mr. Balls, the Comptroller of the Treasury, presented to the Committee listings of travelling expenses of employees in excess of a thousand dollars and payments to suppliers and contractors in excess of a hundred thousand which he had prepared in compliance with the request of this committee made at the time it was recommending certain deletions in the Public Accounts. You will recall the

contents of your Ninth Report, 1965, which resulted in considerable deletions being made in the Public Accounts. The Comptroller of the Treasury, told you that if it was decided that these listings could be eliminated, there would be an estimated additional annual saving of about \$10,000. He brought copies of these listings to the meeting and you will recall he made them available to each member of the Committee.

I would like to suggest, Mr. Chairman, that the Committee consider whether or not it wishes to have these listings each year at this annual cost of \$10,000 named by Mr. Balls, or whether it is felt that advantage should be taken of the opportunity to save this additional amount. I bring the matter before you now because, although unfortunately the matter came before the Committee too late for the full savings to be realized in connection with the year 1965-66, if you feel now that the listings are not required, then some portion of this amount could undoubtedly be saved right now if the Comptroller of the Treasury were to be advised before the House has its summer recess. I would suggest Mr. Chairman, that if the members do feel that this listing could be dispensed with—

Mr. McLEAN (*Charlotte*): I wonder, Mr. Chairman, if you could tell us how they arrived at \$10,000?

Mr. HENDERSON: That was the estimate placed by Mr. Balls on the cost of preparing this detailed listing of all these items, Mr. McLean.

Mr. McLEAN (*Charlotte*): If each department keeps their own costs and everything I would not think it would cost \$10,000.

Mr. HENDERSON: I do not think we debated the accuracy of his cost. He named that figure. There is a lot of clerical work involved in the compilation of this and, presumably, in co-ordinating and pulling it all together, that is what he figured it cost.

The CHAIRMAN: I would like to be clear on this point. Is the \$10,000 cost for printing it in the back pages of the Public Accounts record, or is the \$10,000 cost to prepare the report for each of the members of this Committee?

Mr. HENDERSON: I think it is to prepare the type of document that he circulated at the last meeting which was in typewritten form. It is about an inch or so thick. We have our copy here.

The CHAIRMAN: Each member received one.

Mr. TARDIF: How many copies did they make of that?

Mr. HENDERSON: He made copies for each member of the Committee and I believe that they were distributed for the members to look over to consider whether they in fact wanted it continued.

Mr. TARDIF: I do not think the \$10,000 that they mentioned, Mr. Chairman, covered that. I think it is mostly the problem of taking the figures from each department and compiling them into one report.

Mr. HENDERSON: That is right. It is the work of putting it together and then, of course, executing it.

Mr. TARDIF: I do not know how much work that entails but it appears to me that \$10,000 was a large amount of money for that particular job when every department does the work that concerns their own particular department.

The CHAIRMAN: Well, gentlemen, what are your wishes with regard to this matter? I think we should settle it now.

Mr. BALLARD: In your opinion, Mr. Henderson, do you think that this compilation serves any practical purpose?

Mr. HENDERSON: Frankly, I do not, Mr. Ballard. If I recollect accurately, the discussions that took place there were several members present who were also on the subcommittee that looked into the Public Accounts. Mr. Balls and his officers made the statement that if any member wished any information respecting any particular payments or group of payments at any time they only had to make their wishes known and he would provide the information. I hope I am quoting him correctly. In other words, he could do it on a per occasion basis as requested.

Mr. Long has just pointed out to me that in your report to the House when these deletions were made, you went on to say that your Committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and the payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee. Thus you asked him to do this, and he has come back and told you what it will cost. I think if he were able to look after your requirements on, shall we say, a per occasion basis when you wished to check on some piece of information that it would come very considerably cheaper.

Mr. McLEAN (*Charlotte*): Of course, we would not know whether or not the expense was high because we never saw the figures.

Mr. HENDERSON: That is quite right, Mr. McLean. I cannot deny that.

Mr. McLEAN (*Charlotte*): It seems to me it would be just as well to take some of the high figures and ask why they were so high.

Mr. LEFEBVRE: Mr. Chairman, I find it difficult to believe that it would cost us \$10,000 to get this report. I was of the opinion that all these figures were readily available from every department.

Mr. HENDERSON: Perhaps Mr. Long might be able to add something to that.

Mr. G. R. LONG (*Asst. Auditor General*): Mr. Lefebvre, you would understand that to pick out the employees with travelling expenses in excess of \$1,000 you have to review the travel file of every employee, similarly with regard to the files of invoices from each supplier, each file has to be handled to get the total to see if it is one that has to be reported which means going over almost all of the suppliers and all the employees.

Mr. TARDIF: I am sure no other department, Mr. Chairman, ever will admit that the files of each employee are not scrutinized with great care. If that is not the case, then there is something wrong. And if that is the case, it is no wonder that some employees have large travelling expenses.

Mr. LONG: They are scrutinized with great care.

Mr. LEFEBVRE: I do not know of business institutions that do not scrutinize expense accounts with a great deal of attention when it comes to travelling. I am sure that every department does that and if they do not do then the cure is to get a system established where they are going to check every one of these things.

Mr. LONG: The accounts are checked. The work involved in preparing these listings is over and above the checking of the accounts.

Mr. LEFEBVRE: Could there not be a way devised so that every department would enter automatically on a given form anything spent over a certain amount this would just involve a couple of days work perhaps at the end of the year and then each department could hand these in to the proper people who will compile them and have them printed.

Mr. LONG: You do not know at the beginning of the year, Mr. Lefebvre, who is going to run over a thousand dollars. It means you have to keep an account, or keep a running total for each employee of the government and then pick out the ones who are over \$1,000.

The CHAIRMAN: I think a good question is this. Will the members of this Committee make use of this report or will it be put on a shelf, pigeon-holed and that is the end of it.

● (11.30 a.m.)

Mr. BALDWIN: Granted in ninety-five per cent of the cases most departments in their travel expenses try to be as careful and as prudent as they can, but if it was known that this report was going to be made available from time to time, to come under the eagle eyes of the members of this Committee, this might have some restraining effect on that very small percentage in some of the departments who might otherwise launch themselves into somewhat larger travelling expenses. In other words, it is a preventive rather than a curative aspect we might look at.

Mr. HENDERSON: Mr. Chairman, if I could make a suggestion, it occurs to me that this might commend itself to the members of the Committee, namely that it is the Public Accounts which are referred to you and, even despite the reductions that were made in the size, it is a very compendious volume, and if you were to ask me at the opening of our sessions or our meetings for information that you are particularly interested in or would like to know, for instance: What are the ten largest in every department, say the ten largest contractors, and things like this—not necessarily everybody over \$1000, we might be able to so organize ourselves to give you some summaries in that form fairly quickly. Your questions could be directed along even more constructive channels without necessitating the preparation of a vast quantity of information which would not necessarily be used. Our work could be so changed and organized to do that. Does something like that commend itself?

Mr. McLEAN (*Charlotte*): It seems to me if we had the total travelling expenses of department—

Mr. HENDERSON: You have those, Mr. McLean.

Mr. McLEAN (*Charlotte*): Well, let us analyze that and see what they are doing.

Mr. HENDERSON: You say you would like to know who are the top ten in this compared with last year and what is the reason for this, and we start to get some material together to answer specific questions that come to you as you scrutinize the accounts.

Mr. TARDIF: Well, Mr. Chairman, government auditing is not the same as auditing in private industry. I do not understand actually why it is not, but it is not. For instance, in private industry if an auditor comes into your office and finds that there is something irregular he does not tell you there is something irregular; he goes up to your head office and says he found so and so, and so and so. Here, if something is irregular in government department or government administration the auditor discusses that with the deputy minister and the deputy minister looks into the question and then prepares the answer. In private industry they do not give someone responsible time to prepare the answer; they asked them what happened. But here they tell the deputy minister that they find there is an irregularity in land purchase, for instance, and no doubt four months from now you will appear in front of the Committee, and it would be good for you to have the right answer.

Mr. HENDERSON: Do you not think that is the proper way to work?

Mr. TARDIF: Well, the element of surprise is eliminated completely, let me tell you.

Mr. HENDERSON: There is also the element of fairness, is there not?

The CHAIRMAN: But he was asked to get the answer anyway. Mr. Schreyer you had a question.

Mr. SCHREYER: Mr. Chairman, I thought you were soliciting opinions from members as to the value of that list.

The CHAIRMAN: Yes, we got off the subject a wee bit.

Mr. SCHREYER: And I submit, Mr. Chairman, that the listing of the names of the people incurring expense accounts of over \$1,000 and so on, has a very limited value. I did get the report and I looked through it. Quite frankly, I thought it was of very little value indeed. The names of people are given and their travelling expenses, and so on, the names of contractors and suppliers, giving services and so on, over \$100,000; but the nature of the work is not described nor the amount of work and, quite frankly, I think if it involves a saving of \$10,000 we should cease this particular practice.

The CHAIRMAN: If there is no further discussion, I am prepared to take a vote on this.

Mr. BALLARD: Mr. Chairman, I think Mr. Schreyer hit the nail on the head in so far as this report is concerned. I made a cursory examination of the report and found that it is practically meaningless because you could place no interpretation on the facts that were revealed. I think that possibly a suggestion that would come quite close to what Mr. Henderson has suggested, that I would make, is that possibly we should have a listing in our accounts of the travelling expenses of the heads of departments, and then rely upon that head of the department to keep the travelling expenses in his department under control and secondly, also rely on the audit of the Auditor General to point out any inconsistencies that may arise. I think with these two factors we would have

sufficient internal control that we could rely on a much skimpier report to be published in the Public Accounts without jeopardizing the public purse. I think we could do away with the report such as we had. Possibly a much shorter report reporting the travelling expenses of heads of departments would be sufficient.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I think first that we should have an analyzed statement of this \$10,000 because sometimes they tell you \$10,000 just to discourage you so you will not ask for it, and I think that we should know just how this \$10,000 is made up.

The CHAIRMAN: All right. Would the Committee be agreeable then to postpone this matter until we have a report from Mr. Balls how he arrived at the cost of \$10,000. Does the Committee agree?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Henderson, do you have anything further?

Mr. HENDERSON: No, those are the two points I wish to place on the record, Mr. Chairman.

The CHAIRMAN: Well, now, gentlemen, we have the pleasure of having with us the officials of the Department of Transport this morning. The Deputy Minister, Mr. Baldwin, is with us, and some of his officials. Mr. Baldwin, would you like to introduce your three officials.

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): Mr. Chairman, I have with me the Chairman of the Maritime Commission, Mr. Darling, who is not an official of the Department, sir, but is here today, the senior financial advisor of the department, Mr. Tilley, and the Director of the Shipbuilding branch, Mr. Strang.

The CHAIRMAN: Thank you, Mr. Baldwin. We will now proceed to the Auditor General's Report, 1964, page 43, paragraph 83.

83. *Damage to Coast Guard vessel.* On August 8, 1963, in what was described as "fine clear weather with excellent visibility", a Canadian Coast Guard ship of the Department of Transport ran aground in the St. Lawrence River while en route from Trois Rivières to Quebec. Damages which cost \$147,671 to repair were sustained. The departmental investigation that followed indicated that there were no extenuating circumstances and that the officer in charge of the vessel at the time of the accident was solely responsible.

The case was submitted to the Department of Justice and the opinion was given that the accident was mainly attributable to the negligence, major in character, of the officer in charge. He was assessed the maximum penalty of \$250 pursuant to the Claims Regulations and transferred to another position.

The foregoing is an example of losses borne by the Crown under its policy of acting as its own insurer. In order that Parliament may be more completely informed, such losses should be summarized or otherwise recorded in the Public Accounts.

Mr. HENDERSON: Some of these paragraphs the members will recognize as having been discussed earlier and therefore, I shall make every effort, Mr.

Chairman, to move along as speedily as possible stopping only at those on which I know that you wish to question the witnesses.

Paragraph 83 was discussed on May 12th. It is an example of how losses are borne by the Crown under its policy of acting as its own insurer. We discussed that when the Department of Agriculture was before you last week. Here the second officer of the coast guard ship was held responsible. He suffered a reduction in pay of around \$1,200 per annum when he was transferred to the position of master of St. Lawrence ship channel barge. When the case was submitted to the Department of Justice the opinion was given that the officer's negligence must be considered major in character and this lead to his being assessed the maximum penalty of \$250 under the claims regulations. As you already know in the Committee there was inserted in the Public Accounts for 1964-65 a statement detailing the amounts of losses incurred as the result of the accidental destruction of or damage to assets which would normally be covered by insurance had such coverage existed. That is the purpose of picking up costs like this.

Mr. LEFEBVRE: Mr. Henderson, how do you go about getting these amounts if they are not listed in the Public Accounts?

The CHAIRMAN: The amount of the damage, you mean?

Mr. LEFEBVRE: It says, in order that parliament may be more completely informed, such losses should be summarized or otherwise recorded in the Public Accounts.

Mr. HENDERSON: They are now being recorded in the Public Accounts, Mr. Lefebvre, on the statement I mentioned. This was my 1964 report. The recommendation which you later endorsed, was made by me at the time you were changing the Public Accounts.

Mr. LEFEBVRE: They are recorded now?

Mr. HENDERSON: Yes.

Mr. LEFEBVRE: But they were not recorded at the time?

Mr. HENDERSON: No. That is right.

Mr. LEFEBVRE: How did you discover this?

Mr. HENDERSON: We discovered that from our examination of the records of the Department of Transport. We saw what the bills were and what it cost to repair the ship. I think it is something parliament should know because in business you would carry insurance.

Mr. LEFEBVRE: I was just curious as to how you came about it, but now this fault has been corrected?

Mr. HENDERSON: Yes, sir. Thanks to the Committee's action.

Mr. LEFEBVRE: Right.

Mr. TARDIF: And he paid a maximum penalty of \$250—

Mr. HENDERSON: I suspected you would have some observations on that.

Mr. TARDIF: —on a \$147,000 loss. It was completely his fault and he was penalized to the tune of \$250?

Mr. HENDERSON: That is the way the regulations stand.

Mr. TARDIF: I know, Mr. Chairman, that this does not come under the Auditor General, but do you not think that that penalty was a little severe?

The CHAIRMAN: I think maybe you are being a little sarcastic here, Mr. Tardif.

Mr. TARDIF: I could not be more sarcastic.

The CHAIRMAN: Maybe you would like to enquire as to what position he was transferred to. Could you tell us that, Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): I think Mr. Henderson mentioned that. He was transferred to a smaller vessel and demoted, sir. His record was reasonably good. We considered whether he should be discharged or demoted with a loss of pay and transferred. Since the record was a good one, apart from this incident, we decided, rightly or wrongly, that he should be demoted and transferred.

Mr. TARDIF: Mr. Chairman, does this not make quite a dinge in anybody's record?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. LEFEBVRE: What is the most severe penalty that could have been provided here under a damage which cost the Crown \$147,000?

Mr. BALDWIN (*Deputy Minister*): We could have discharged the individual.

Mr. LEFEBVRE: And what were the reasons for not discharging him?

Mr. BALDWIN (*Deputy Minister*): Because he had a good record apart from this one incident.

Mr. TARDIF: Incidentally, and maybe I am being a little uncharitable, and this is unusual for me, was this fellow drinking when this happened?

Mr. BALDWIN (*Deputy Minister*): No, sir. There was no indication of that.

The CHAIRMAN: All right. Paragraph 84, Financial consequence of faulty ship design.

Mr. HENDERSON: This case was discussed on May 12th but it was postponed until the witnesses could be present today.

It is a case where serious errors in calculations were made—which required a number of structural changes to be provided for, including the comparatively costly use of aluminum in lieu of steel in the superstructure of this ship. Our examination of the background facts indicated that it had been established and was confirmed by the Department of Justice that the naval architects responsible had, and I quote “failed to exercise the skill and competence of an ordinary competent practitioner in naval architecture”. However, the department of justice opinion went on to question whether the Crown had a valid claim against the naval architect because it appeared that the department was satisfied that the increased cost of the vessel presently under construction will not be greater than the estimated cost of construction of the vessel if design errors had not been made.

We have enquired as to the extent to which the department has been giving business to this firm of naval architects, after this experience. The business represented by this weather ship design contract was given to these architects in April 1961. The failings of the architects did not come to attention until the fall of 1963; the legal opinion I referred to which puts the blame on the naval architects was not obtained until April 1965. A listing of the business given by

the department to this firm of naval architects since April 1961 numbered something like 16 contracts, by agreement, letter or purchase order. I might tell you that one of these given in the fall of 1963 was the Prince Edward Island rail car ferry case having to do with the cost of faulty planning in ferry design. You are going to be coming to this in paragraph 132 in my 1965 report, and that cost an additional \$55,000. That is all I have to say on that, Mr. Chairman.

Mr. TARDIF: Well, Mr. Chairman, in one case it cost the Canadian government \$500,000. I would like to know—and I have asked this many times before and I have not had an answer from anyone in the department, and I am wondering whether I will be more successful this time—whether this architect was paid the regular tariff on the \$500,000 that it cost to rectify this mistake. Mr. Chairman, just how ridiculous can we be. This would not apply to anybody else in the world except the government. A fellow makes a mistake of \$500,000 and we pay him the tariff on the additional \$500,000 that it cost to rectify the mistake that he has made. Not only do we do that, but we also give him 16 further contracts, and I am wondering whether on the 16 further contracts that we have given him how many additional mistakes were made. Can I have information too?

The CHAIRMAN: All right. This is the reason we have the witnesses here this morning to answer this type of question.

Mr. BALDWIN (*Deputy Minister*): The question of liability was a difficult one, sir. We seriously considered taking court action against the firm, although there is always a question as to whether it gains anything to put a firm into bankruptcy, as we might well have done. The problem was that the Department of Justice was not satisfied that based on the information which we quite honestly were able to give them, that we could make any progress in a court case. The reason for this was that if the mathematical error, which was one of the fundamental features here, had not been made by the naval architects, and if he had at the outset made enough marginal allowance for unknown waste, which is normal practice in naval architecture, unknown wastes of components that will be coming in under subcontracts, he would probably, most certainly in our opinion, have started with a larger basic ship design to begin with and the net result would have been that the total cost of the ship on the correct basic design from the outset, the total cost of the ship, would have been as great or probably, indeed, considerably greater than the cost that was involved in modifying the design when the error was discovered. In view of this information, the Department of Justice did not feel that we had an adequate court case to take to court. They felt that to go to court we must be able to prove that this was a net loss to the Crown; in fact, as I have tried to indicate, the ship is designed correctly from the outset would have cost at least as much and probably a little more because we would have used a basic different slightly larger design.

Mr. TARDIF: Mr. Chairman, I have a supplementary question. You know your reasoning of that can be right except that I have no way of making comparisons with the exception of the limited business experience that I had. If somebody bids on a ship that will cost \$9 million and that is an improper figure or there is an error in it and the ship should be \$10 million there may be a decision made by the department that the \$10 million ship will not be built. Not

only that, if a contractor bids on a ship that eventually will cost \$10 million and it is possible for him to know that ahead of time, he might bid \$9 million and get \$1 million of extra that normally if it were included in the price of an original contract might only be \$600,000 instead of \$1 million, and this is where the danger dishonesty can slip in. I do not think that there has been dishonesty in this but this is where dishonesty can slip in because there can be some king of understanding of that type. If this fellow has made a \$500,000 mistake and the department is not so sure, Mr. Chairman, whether they should bring him to court or not even though there may be a fifty-fifty chance that it might recover or that he might go bankrupt—if he is inefficient he has no business being in business in the first place—why do we give him —16 more contracts? We admit that he is inefficient because we consulted the department of justice. The department of justice states that this is an error, but if you sue him he might go bankrupt so you give him 16 more jobs. What is the explanation for something like that?

The CHAIRMAN: Mr. Baldwin, I think the Committee would like to know why these naval architects were given 16 other contracts.

Mr. BALDWIN (*Deputy Minister*): I would have to check the dates of the group that Mr. Henderson mentioned, sir, but it is my understanding that most of those are very small jobs and the majority were granted before we established the facts with regard to this fault. It is further my understanding from the director of the shipbuilding branch that we have not given this firm certain large jobs which we otherwise would have given this firm had this error not taken place. In other words, the only penalty that it has suffered, quite frankly, is that it has not received work of a substantial nature from the department. I may say that there is a shortage of private naval architectural firms in Canada, and we are not in long supply in these. We do not like to give everything to one firm but there has been some tendency in this direction just because of this situation. Definitely the firm has not received work of a substantial nature which it otherwise would have received.

Mr. TARDIF: I have a supplementary question, Mr. Chairman—

The CHAIRMAN: Just a minute. Maybe there was a statement made here by Mr. Baldwin concerning future contracts. I think we should ask the Auditor General and his department to substantiate the fact of 16 other contracts and then we will proceed, Mr. Tardif.

Mr. HENDERSON: I have a list here prepared from the records of the department covering department of Transport business since the weather ship design contract in question dated April 7, 1961 was issued. The 16 contracts are listed by dates, by number and payments thereunder to February 14, 1966, that exceeded \$520,000. They are the contracts, purchase orders, or what have you.

The CHAIRMAN: Do you want the dates and the amounts for each of these?

Mr. TARDIF: It is not necessary, Mr. Chairman. How does the department, Mr. Chairman, justify paying this tariff on the \$500,000 mistake?

Mr. BALDWIN (*Deputy Minister*): This is part of the contract with him, sir, that we entered into for the design, including modifications that might be necessary if the ship is built. And this is always part of a standard naval

architectural contract. The only method of recovering would have been the court action that I mentioned, and here the department of justice indicated that they did not think that we had an adequate case to take to court.

Mr. TARDIF: Well, Mr. Chairman, I realize that there may be a shortage of naval architects in Canada but if we want to buy this type of equipment, for instance, we do not necessarily buy it in Canada: this comes from England. Would it not be possible to go to some country like England or other countries where they have naval architects that have proven themselves.

Mr. BALDWIN (*Deputy Minister*): Yes, sir. We have never done this in the department.

Mr. TARDIF: You have never done it?

Mr. BALDWIN (*Deputy Minister*): No.

Mr. TARDIF: Well, from the results of this I would suspect that you start looking into it.

Mr. McLEAN (*Charlotte*): Do not the naval architects consult other naval architects in these jobs. I know our people who are working on bridges sometimes go to New York and other places to get confirmation.

Mr. BALDWIN: A naval architectural firm is a self-contained firm. The basic plan is that you give them your basic ship requirements statement, over-all design requirements in a broad sense. Their job is to produce the detailed design and specifications up to the point of tender call. The job of the shipyard is to double check that and build.

Mr. McLEAN (*Charlotte*): That is all right but in building large bridges, they accept the contract but they go to a higher authority; they might go to England or Europe or the United States to get their plan checked.

Mr. BALDWIN: This has not been a custom that I am aware of with the limited number of Canadian naval architectural firms.

Mr. LEFEBVRE: Mr. Chairman, it seems to me that the protection in these types of contracts is for the naval architects only and not for the Canadian taxpayer. In other words, it is a one-way street; if the architect makes a mistake he is going to get paid extra for repairing the damages caused by poor planning. Is there no way that the government can take precautions in drawing up the contracts so that this will be eliminated in the future?

Mr. BALDWIN (*Deputy Minister*): We have been trying, and I think the Department of Defence Production with regard to military construction has been trying as well, to design a new form of contract that will help to protect against this type of thing relating to the form of contract really with the shipyard, which is a base form. We are experimenting with some new techniques in the new search and rescue cutter line of contracts that we hope will eliminate this sort of difficulty. I would not guarantee that it would completely eliminate it.

Mr. LEFEBVRE: This happened in 1961 and these precautions have not yet been taken five years later. Could you tell this Committee when this will be looked into on a permanent basis?

The CHAIRMAN: Mr. Baldwin, I think maybe your assistant should answer these questions direct.

Mr. J. R. STRANG (*Director of Shipbuilding Branch, Department of Transport*): Mr. Chairman, since this particular case we have revamped our contracts considerably. The estimated cost of preparing the design specifications and drawings is based now on the estimate of costs provided by ourselves and verified by the naval architects whilst they are doing the design. In so far as protection is concerned, we have two major naval architectural firms in Canada, both in Montreal, both quite qualified except for this one particular error, and they are now insured for errors and omissions. I insisted that they insure themselves to 10 per cent of the contract value estimated cost of the ship in the event of the recurrence of an occasion like this. In other words, I believe they pay about \$3,000 for insurance of \$1 million, one-tenth of the contract of a fairly large icebreaker for instance.

Mr. LEFEBVRE: In your opinion, sir, if this occurred in the future it will be the naval architects' responsibility and not ours.

Mr. STRANG: Precisely. They will be responsible for the consequential damages to the shipyard for work done or work that has to be scrapped, shall we say, or any work performed in the drawing office in the shipyard which has to be redone. They will be financially responsible.

Mr. LEFEBVRE: Well, this is one item that next year we will not have on our books.

Mr. STRANG: I hope so.

The CHAIRMAN: I would like to ask Mr. Strang if in this particular case there were miscalculations by the architects. Did your department examine the designs and specifications?

Mr. STRANG: Well, we do, of course, very cursorily because obviously we are a very small staff, otherwise, you can appreciate if we had to do a complete and thorough check of the design of the ship, and this ship is a very complex ship, then I would need as many staff as the naval architects so this check is part of the contract with shipyard. In other words, when they get the contract, the first thing they do is a thorough design check of the stability of the ship, the power, the propulsion and everything. This is when this occasion came to light, of course, when they checked and found that she had negative stability when the ship was burned out—that is, all the fuel burned out and in that condition she was what they called negative GM. As a matter of fact, she would have turned over.

The CHAIRMAN: Would a miscalculation of 750 tons be a bad miscalculation?

Mr. STRANG: Mr. Chairman, 750 tons was the amount allowed the naval architect as a cushion. Of course, the 750 tons was exceeded.

Mr. LEFEBVRE: How much was it exceeded?

Mr. STRANG: I have not the exact figures but I would imagine that it was possibly by about 350 to 400 tons which would, of course, make it very, very

critical. Seven hundred and fifty tons either way of course, you can imagine is quite a margin on a 7,500 ton ship.

Mr. TARDIF: And, Mr. Chairman, because of this miscalculation would the ship not have floated? Would it have turned over?

Mr. STRANG: Yes, in certain conditions, in the worst conditions.

Mr. TARDIF: I hope you have tight hatches.

Mr. STRANG: I can say, Mr. Tardif, that actually in point of fact, we would never allow her to be in such a condition, but if for some reason she did burn all of her fuel and used all her fresh water, then she would be in a condition that in certain weather she would turn over.

The CHAIRMAN: For future contracts does your department plan on checking designs and specifications of every job, or will you leave it to your naval architects?

Mr. STRANG: Yes, we have to.

Mr. LEFEBVRE: Just for my own curiosity, what type of ship was this?

Mr. STRANG: Weather, oceanographic, hydrographic surveys, an oceanographic weather ship.

Mr. LEFEBVRE: It has not been launched yet, I understand?

Mr. STRANG: Oh, it is complete. She is to be delivered on July 4th.

Mr. LEFEBVRE: It is not launched?

Mr. STRANG: Yes, she is finished, and I might say, highly successful.

Mr. LEFEBVRE: Oh, I see.

Mr. TARDIF: Is it off the slipway yet?

Mr. STRANG: I beg your pardon.

Mr. TARDIF: It is not floating?

Mr. STRANG: It has run the trials and it is an excellent ship. It exceeded our expectations.

The CHAIRMAN: Maybe the Committee would like to take a trip down to Montreal and see this ship sometime.

Mr. STRANG: It is in Vancouver.

The CHAIRMAN: Well, we would not mind that.

Mr. LEFEBVRE: Maybe we could see it even if we do not want to get on it.

The CHAIRMAN: Any more questions?

Mr. BALDWIN: How many firms of naval architects are there in Canada?

Mr. STRANG: There are two what we call major firms and there are a considerable number of smaller ones, two of which we are bringing along in our own methods. The Department of Transport requirements are somewhat peculiar, being interested in icebreakers or large ferries which are not normally built for other than the Department of Transport.

Mr. BALDWIN: I suppose your problem is that in a major undertaking of this kind you had to go to one of the two major firms.

Mr. STRANG: One of the two until we educate this one. There is a new one on the west coast which is doing designs for us now and doing them very, very well; we intend to bring it up as competition.

Mr. LEFEBVRE: What is the normal architect's fee for designing ships for the Canadian government?

Mr. STRANG: Well, it is a sliding scale. The corporation of the Professional Engineers of Quebec have very large fees for the design of buildings and this sort of thing and this has not yet, fortunately, been used in naval architecture, but depending on the value of a ship the fee will range from seven-tenths of one per cent to one per cent. We are building a triple screw icebreaker with an approximate final value of, say, \$20 million; the fees on that ship were \$150,000. Of course, the same amount of calculations are required for every ship to make it float, obviously, but some more for the more detailed and higher powered ships.

● (12.00 noon)

Mr. LEFEBVRE: It never exceeds one per cent though?

Mr. STRANG: It may under special occasions, for special type ships, such as scientific ships.

Mr. LEFEBVRE: The special types?

Mr. STRANG: Yes, it may go to one and a half. This, in fact, was a special ship but I feel that we were not overcharged on the design fees. It was an extremely complex ship and a high speed ship with turbo electric propulsion which is unusual in Canada.

Mr. SCHREYER: Mr. Chairman, there is something in what Mr. Strang said that I think should interest the members of the Committee. I am not asking the question to be difficult but I am wondering about the question of what is the proper function of the department. I think I heard you say that the department is bringing along and educating one of the smaller naval architectural firms. Does this not raise any problems as to the proper relationship between a department of government and a private firm? What about the other firms: are they not objecting and complaining?

Mr. BALDWIN (*Deputy Minister*): I think that in the sense of bringing along and educating we merely meant that we had not entered into any special contractual permanent relationship with any other particular firm apart from the two in Montreal. We had merely decided that as a matter of policy, given the fact that there were only two and we had had difficulties with this one, that it would be wise to try to see if we could spread our work to smaller firms as well to test their competence, and if this worked out well and these smaller firms became bigger we would have a wider field of selection. And this would mean, I think as well, that if there is a fourth or a fifth firm we would like to try them out as well.

Mr. STRANG: I used the wrong term when I said educate. We have our own standards of installation, of materiel, electrical equipment and piping, which are designed to last, of course, forty years. And when I say educate, of course, these up and coming naval architectural firms are used to designing small fishing craft, patrol boats or smaller ferries for the west coast; they are commercial and

have possibly a life of twenty years. When I said educating I meant that we were teaching them our requirements in detail, rather than educating them.

The CHAIRMAN: We must proceed. Just one short question before we proceed. This contract was entered into in 1961 and the miscalculations and so on was in 1963, but it was not until 1965, that you got the legal experts on the job. That is a matter of four years. Why would there be a delay in getting the justice department on this?

Mr. BALDWIN (*Deputy Minister*): They were put on this in 1964 but it was 1965 before we had a ruling from justice.

The CHAIRMAN: We have taken a little longer on the last section but I think a lot of the answers will be answers to questions that are involved in some of these others. Paragraph 85 is next.

85. *Repairs and alterations to Canadian Coast Guard ships.* For many years the Department of Transport has experienced difficulty in complying strictly with the requirements of the Government Contracts Regulations in respect of repairs to units of the departmental Coast Guard fleet. Because there is no way of determining, before a ship is placed in the hands of a ship repairer and opened up for examination, what the extent of repair costs is likely to be, the problem of estimating on a reasonably accurate basis and securing the necessary Treasury Board approval before the work is undertaken has been a continuing one.

A case observed during the year under review serves to illustrate the problem. In April 1963 the Treasury Board approved of entry into a contract for the annual refit repairs of a vessel at the lowest tender price of \$43,346 and at the same time authorized further expenditure of up to \$35,000 to cover any additional repairs which might be found necessary subsequent to the commencement of the work. Additional work of the type for which the \$35,000 was intended to provide was carried out at a cost of \$57,994 and the opportunity was taken to have certain alterations and additions to accommodation carried out at a cost of \$29,511. Consequently, although the ship repairer had commenced operations under a contract involving a consideration of \$43,346, the total cost of the work performed before the ship returned to service in June 1963 was \$130,851. As the original Treasury Board authority, including the contingency allowance of \$35,000, had been exceeded by \$52,005, it was necessary for the Department to make a further submission to the Board covering this amount so that the contractor could be paid. The submission was not made until November 1963. The ex post facto approval of the Board was received in the following month and the contractor was paid the amount of \$87,505 by which total costs exceeded the contract price.

Mr. HENDERSON: Paragraph 85 points up a problem which has existed for several years in connection with strict compliance with the requirements of the government contracts regulations covering repairs to coast guard ships. The problem set out here is a continuing one and there is always the danger that a shipyard might deliberately submit too low a bid on the work originally specified in order to obtain the contract with the expectation that any loss suffered as a result can be recouped in the profit on the extras. When this matter was discussed here in the Committee on May 12th we suggested, it will

be recalled, that the Committee might give consideration to recommending that in addition to all other methods which the department might be able to employ in controlling the cost of extras, such contracts provided that when extras are involved they shall be undertaken on a cost plus or modified cost plus basis with the profit limited to the percentage profit realized on the original contract price, with the entire contract subject to cost audit by government auditors. It might be of interest to hear what Mr. Baldwin and Mr. Strang would have to say about that suggestion, Mr. Chairman.

The CHAIRMAN: Mr. Strang, just a brief explanation, if you will. Do you think this system would work?

Mr. STRANG: Mr. Chairman, with regard to the auditing of extra work orders, of course, we operate certainly over forty major ships that are in and out of dry docks and ship repair establishments, at least once a year, and the amounts which are involved, of course, in some instances, when there is unknown work coming up, are quite high. In auditing them, we would expect to have to pay the actual operating overhead of the ship repairer involved. Now, this is never below one hundred per cent and could possibly be a hundred and fifty per cent. In 1962 I toured every major shipyard in Canada with my chief of ship repairs and we established an hourly rate for the men working on that ship. You could not very well take 36 trades by hours, so we took an average hourly rate at that time, which I will say at this time was \$2, and we agreed on an overhead of 70 per cent which is a competitive marketable overhead and ten per cent profit; and in working that out, there is the \$2 plus the 70 per cent, which is \$1.40, plus ten per cent, and the average hourly rate for that period in each of those yards, depending on the facilities was, shall we say, \$3.50. As each year comes up and they get a new contract with their unions, we take the increase and put it through 70 per cent and add 10 per cent and add it on to that figure. Now, you can imagine if we went into these yards and took the actual hourly rate of \$2, then took their actual overhead through audit at 150 per cent, then gave them 10 per cent profit, we would be paying just about twice as much as we are now. This has the approval of Treasury Board. Our ship repair bills are \$4 million scattered from Vancouver to Halifax and if the auditors went in these bills would be outstanding for over twelve months.

Mr. LEFEBVRE: When we studied this previously, Mr. Chairman, we found that this was a \$43,000 that ballooned out to \$130,000. Now we found that the original \$43,000 had been enlarged by another payment of \$35,000, which was authorized, making a total of \$78,846. I would like to know who authorized the \$22,494 of necessary repairs that were found later, and even more so, who authorized the alterations for a total of \$29,511. Now I think we can understand that when you take something apart you might find things that were not apparent before, but I think the alterations intrigue the Committee here because there was no mention of that originally.

Mr. R. BALDWIN (*Deputy Minister*): I think Mr. Henderson shows an excellent example to indicate the difficulties of this case because it typifies about three different things that can happen, and normally we hope there is only about one of the three. This was one of the small icebreakers in the St. Lawrence River. The repair job was scheduled for the autumn and it was on this basis that the contract was originally let, and would or could have been

completed in normal circumstances for the winter work. We had a deterioration of conditions suddenly in the St. Lawrence River that led us to decide, again a matter of judgment, that we needed the icebreakers sooner than we had expected we would need them, and that we could not afford to have the contract carried out that autumn and that we must postpone it until the spring. We, therefore, did postpone it and put the ship into immediate icebreaking service earlier than had been contemplated.

During the winter season further deterioration resulted in damage, as is normal since this is the ship refit type of contract, so when we came to the spring period, in addition to the original contract we had certain additional work of a substantial nature as a result of the winter that had to be done. The alterations were a direct consequence of this additional work; we had planned certain rehabilitation of crew quarters to modernize them and to bring them up to the standard in other vessels because this is one of our very oldest ships. It so happened, that while this had been scheduled to take place at a later stage that the repairs that we had to make as a result of the winter work involved pulling apart things that would have to be pulled apart when we rehabilitated the crew quarters, and it therefore was an obvious saving in cost if we could combine the two jobs instead of doing the repair job and then pulling the same thing apart a year later to fix up the crew quarters. This was why these were all combined in the same spring contract.

Mr. TARDIF: Mr. Chairman, did I hear correctly that this contract was supposed to start in November.

Mr. BALDWIN (*Deputy Minister*): October, I think it was.

Mr. TARDIF: I can foresee a great deal of difficulty when Canadians start a major repair on a ship, in October, and hope to have it finished for the freeze-up in the St. Lawrence.

Mr. BALDWIN (*Deputy Minister*): The problem is that this particular ship was also required for summer work as well, and in the case of a number of our ships who do this dual work we have a tight scheduling every year to work in the refit between the essential summer supply work for the aids to navigation and lighthouse service or Arctic work and the winter work they have to do, and this is a recurring problem in scheduling.

Mr. TARDIF: To prove that there is more than one thing that I understand with difficulty, I understand this with difficulty too. You established a price per hour with the shipyards for repairs on ships, and from the explanation that was given to us it appears to be a very reasonable type of per hour repair cost. But this you give on tender, and the tenderer does not know what he is going to have to repair. He had to imagine that there was going to be more than what appears because it is evident that when you open up a ship for repairs there are a lot of things that show that do not show on the surface and you cannot see unless it is open. But you tender this at \$43,000 and then you end up by having a \$130,000 bill. Instead of tendering it, now that you have a price established, a per hour price, which appears to be reasonable, why are not these special jobs given on a per hour basis. If somebody is suspicious of the amount of work that is necessary on this ship, he might bid \$40,000 on it when he should bid \$80,000 and then when it is opened he says, well, this has to be done, and somebody has

to make a decision whether it is going to be done or not. Then the contractor is on the job and because of that the competitive system is eliminated. He is not in competition any more. So instead of making the extra \$30,000 if he is not in competition he may make, say, \$40,000.

Mr. BALDWIN (*Deputy Minister*): Well, this is why it is important to establish a cost for this second sector of the work as we have tried to do.

Mr. TARDIF: I cannot understand why it does not apply to jobs like this, because this is absolutely a repair job and nothing else.

Mr. BALDWIN (*Deputy Minister*): Cost control did apply to the second portions of the work here.

Mr. STRANG: To the excess over about \$75,000.

Mr. TARDIF: Mr. Chairman, I understand that but you had already given this fellow a contract. I do not think that he was given a special favour, nor do I say that he knew more about the repairs required in this ship than another contractor, but this thing is not impossible.

The CHAIRMAN: Have you had several dealings with this particular firm?

Mr. STRANG: Oh, yes, quite a lot.

What happens then, of course, is that another branch in the department checks over the ship and makes up the specifications. It is on these specifications that they tender, and the tenderers are invited to go and visit the ship if she is immediately available, not at sea, which they do. And, of course, at that time we cannot open up anything for them to see what is behind a lining, inside the engines or that sort of thing so they quote upon what they can see. So for each particular item, and there may be a hundred items in the refit or probably more, that is opened up there may develop further work, unseen work, and we have a special form where we ask for an estimate on this. The supervisor of repairs consults and he negotiates this extra cost based on his opinion of the number of hours it will take. Now, of course, the submission by the ship repairer as to how much he thinks it is going to cost is not by any means acceptable until we have checked the number of hours involved ourselves.

Mr. SCHREYER: Mr. Chairman, that being the case, in this the best way to go about arranging for the repair of these ships? Would it not be better to do it on some other basis other than the calling of tenders inasmuch as in many cases no one really knows how much work has to be done?

Mr. BALDWIN (*Deputy Minister*): This is the problem, sir, and we have not been able to devise any other method. We have tried to establish tighter and tighter controls over the so-called extra fixed cost work but we have not been able to think of any better method than starting out with a tender call covering as much of the work as you can reasonably foresee and define clearly.

The CHAIRMAN: Mr. Long, I think you have an observation to make here. You are familiar with this.

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Chairman, listening to Mr. Strang, I wondered whether we had made clear what this suggestion was. I get the impression that he interprets this as being a suggestion that these repairs be done completely on a cost plus basis.

The CHAIRMAN: I had that impression.

Mr. LONG: The wording of the suggestion was "in addition to all other methods which the department might be able to employ". This is a problem, and we have been searching around to see if there is any other way this could be accomplished. Now, suppose you let your contract after calling tenders in the normal way, at some time it would be possible for auditors, without holding up any payment to the contractor, to determine what percentage of profit he had made on that initial bid. If he takes in all his overhead this is going to reduce the percentage of profit. The suggestion was that when extras are involved you calculate the percentage of profit that he makes on the initial contract and give him exactly that same percentage on the extras. Now, if you take your costs on the same basis, I do not think it matters whether you take the full overhead or a negotiated overhead, so long as they are on the same basis for the two portions of the contract. This would, I would think, prevent him from deliberately underbidding to get the ship into the yard and at his mercy.

Mr. STRANG: Well, sir, I was at a meeting the other day of the government industry on new construction and ship repairs in DDP and the representative of the shipbuilders association there refused to comply with a request from DDP that they break down each individual item by labour, material, overhead and profit. They are not prepared to disclose their overheads to anyone in view of the possibility of their competitive overheads, because if they bid, naturally, on their actual overhead they would never get any work I mean one or two firms, bidding on their actual overhead—so they use a very highly competitive marketable overhead and sometimes ridiculously low, in order to get this work to make up for deficiencies within their plant in certain trades.

Mr. LONG: I would suggest that this, which is one of your means of controlling costs now, still be maintained. By using that agreed overhead, even though, as you said, it is ridiculously low, on the extras, as well as on the original contract, you could, I would think, show what the profit on the extras should be to equal the rate of profit on the original contract.

Mr. STRANG: This could be tried out.

The CHAIRMAN: Mr. Southam and then Mr. Flemming.

Mr. BALLARD: If the contractors' contract is going to turn into a loss would you say the contractor should continue even though he is facing a loss?

Mr. LONG: Well, he has got the ship into the yard as a result of this bid. Usually, I think, if the contract is going to result in a loss, there are submissions made. I do not think there are many cases where this happens. But in order to avoid this possibility, you could limit his profit to five or ten per cent or whatever would be fair. The point is, he should not make a profit of one per cent on the contract that got the ship into his yard and make a profit of 15 or 20 per cent on the extras that he gets when it is there.

Mr. McLEAN (*Charlotte*): Mr. Long, we have had some experience in this connection. I remember putting one of our boats in and we received a \$7,000 estimate for alterations and it cost us \$49,000 in repairs to get her out, and that is in private industry. I know these things happen. When you bid on a contract you bid for certain things, taking out the shaft and so on. You know exactly

what you are going to do, and you can figure your costs. But when you open it up you are into work you did not figure on. Maybe it takes higher priced men and so forth. I can see that you cannot figure your costs. When you have a contract in front of you, they tell you exactly what they want you to do; well, you can do it. You know what men you are going to use on it. You know the type of men you are going to use on it, and it may not be expensive then. But you open that up and get into something very expensive, which requires high cost men, welders and so on, and it gives you another cost altogether than what you figured on in the first place.

Mr. LONG: Mr. McLean, when you bid on the initial request for tender, you put in a certain amount that you hope will be your profit.

Mr. McLEAN (*Charlotte*): Well, you could. Maybe there are certain things you could do very easily.

Mr. LONG: The bid does cover certain specific work. You know exactly what that is going to cost you, or at least you try to know what it will cost you, and you try to allow for a profit at a percentage that you need. Now, the suggestion is simply that you be limited to that same rate of profit on whatever costs are incurred in the extras. It is to try and avoid having the contractor agree to do a job at a loss to get the ship in where there is no competition for all the other work that may have to be done on it.

An hon. MEMBER: That is the danger right there.

Mr. LONG: That is right.

Mr. TARDIF: Well, Mr. Chairman, if they were just as insistent at \$43,000 for the original contract and \$130,000 for the finished job, in the difference between the original price and the finished price there is quite a space for recouping what you did not put in the first time, is there not?

The CHAIRMAN: That is right.

Mr. McLEAN (*Charlotte*): I do not think that is it at all. I think it is in alterations, when you go into alterations to a ship.

Mr. SOUTHAM: Mr. Henderson, in introducing this paragraph 85 you used the phrase "continuing problem". Now, we as a Committee have many examples of specific instances of overpayment on government contracts but when you use this term "continuing problem", I think it is a matter of great concern to the committee. I was interested in Mr. Long's remarks. It does answer part of the question I was about to ask. But due to the fact that there are so many of these unknown or variables in the bidding for these repair contracts, it appears that we should get away from the straight tender. Is it possible for the department to have some type of a nautical engineer who would be in there as this ship is opened up—I can see the problem—to more or less supervise the repairing and to finally determine the cost of repairs, rather than leave it up in the air, because I do not like having to come to Committee year after year and hear that something is a continuing problem. I think it is one of our duties to try to come up with something practical to solve this.

The CHAIRMAN: I think your question to Mr. Strang is, do you have a man from the department on the job?

Mr. STRANG: On all of them. Every job.

The CHAIRMAN: On each job they have a man from the department.

Mr. SOUTHAM: Well, has Mr. Henderson himself any further comments to make regarding this. He has presented this problem.

Mr. HENDERSON: It occurred to us Mr. Southam, that this might be a recommendation of the Committee in discussing it with Mr. Strang and Mr. Long. I gathered that Mr. Strang felt that this was an approach that could well be tried, and consequently it would not be inappropriate for this Committee to make a recommendation, along these lines, that it be tried. This is a continuing problem to the department in the opening up of ships. I do not want you to think that it is a continuing problem so far as my report to this Committee is concerned. Mr. Baldwin confirmed that this has been a headache to them for a long time, and we have noticed it because it has been back of a lot of the comments that I have made in prior years' reports.

Mr. SOUTHAM: Well, then, Mr. Chairman, if it would be any help I would suggest that we recommend this suggestion be tried in an effort to overcome this continuing problem.

The CHAIRMAN: We will note this, Mr. Southam.

Mr. FLEMMING: My question is this, Mr. Chairman. I presume that after a tender is received for certain specific work and it is opened up as was suggested and there is a need for additional work to be done--and obviously the department is anxious that since they are doing a refit job that it be done as thoroughly as possible—I presume the department investigates the recommendation of the shipyard which is doing the work as to the additional work before they authorize it.

● (12.26 p.m.)

Mr. STRANG: Sir, we use a special form for each and every item as it occurs which is consequent upon opening up. The list is signed before the work starts.

The CHAIRMAN: Just before we move on to the next one, there have been certain recommendations made here Mr. Strang, and we may or may not adopt them as a Committee. Do they meet with your approval?

Mr. STRANG: To investigate, yes, sir. I cannot see frankly how it will work because some jobs are taken with no profit whatsoever. We actually build ships with profit of 5 per cent on labour only and nothing on material. Ship repairs is a very highly competitive business, and I feel that we may run into obstacles in obtaining from them a quotation as to the amount of profit they have allowed in their tenders to us.

Mr. HENDERSON: Does that not mean that we get it that much cheaper under this method? If they made no profit on the first contract they are not going to make any on the extras. It proves the correctness of the formula, I would think.

Mr. STRANG: I would have to check the legality of that, Mr. Henderson.

Mr. LONG: I would suggest, Mr. Strang, that you would not have to ask them to declare their profit; you would in due course determine that from an examination of their accounts.

Mr. HENDERSON: By audit.

Mr. LONG: By audit.

Mr. BALLARD: You run into one problem that does not sit very well with me and that is this. Suppose that under this system that is suggested that you do let a contract and suppose that the repair depot makes a profit of, say, one percent, or no profit at all on the contract that they have received; and under this suggestion that has been made, we might give them an additional \$50,000 worth of repairs to do which they would be obligated to undertake at one per cent or no profit and the shipyard people said, well under those circumstances we do not want to do the extra work. Then you run into a situation where you have a ship torn apart and the repairer not willing to go ahead with the work. I would suggest as a compromise that possibly when the contract is let originally that a percentage of profit be computed for any extra work that is undertaken. In other words, you could say that this is the job that you are bidding on; any extras that are let in addition to this contract will be calculated on the basis of cost plus five per cent of, say, plus ten per cent, rather than tying the profit to the amount of profit calculated on the original contract.

Mr. BALDWIN (*Deputy Minister*): Well, Mr. Chairman, if you follow this thing through, as I am trying to do, to a logical conclusion and, as Mr. Strang says—and I agree—this a very highly competitive field, would this not have an effect on firms which were intending to tender because they would realize that this arrangement was in existence? In other words, if they had deliberately decided to tender on a basis which would leave them no profit, they then would give second thought to this at the time the original tender was made, and the tender would more nearly reflect reality and I think all of the firms would tender accordingly. I think it might be worthwhile for Mr. Long and Mr. Strang to have a discussion with regard to making plain to these firms when applications are tendered that some procedure of this kind might be adopted. If this procedure was adopted, they might be a little more careful in their tenders.

The CHAIRMAN: I think you have summed it up pretty well, Mr. Baldwin. Is it agreed to move on?

Mr. BALLARD: This would cost the government more money because every contractor who went into a contract on that basis would make sure they had enough cushion in their contract price to be sure that they had a profit in case they had to apply this figure to their extras.

Mr. LONG: This suggestion naturally has been reduced to its simplest terms. You could say it is oversimplified. You could bring in other features that would guarantee a minimum profit if you wished, as long as it was not a profit that was greater than the shipyard would normally expect. The problem is to be sure that a ship is not brought into a yard at a ridiculously low rate of profit on the job that brings it in with an excessive profit being obtained on the over-all. So long as that objective is obtained, you can see to it that the shipowner is not going to be injured in any way. There is no desire to do that.

Mr. BALLARD: Now you are agreeing with what I said, that the original contract should specify the amount of profit on an extra and should not be dependant on the amount of profit made on the original contract. This rate of profit should be fixed at the time of the letting of the original contract.

Mr. LONG: This could be considered but would you not agree that if you could see all that was to be done on that ship when it went in, that probably the same rate of profit would apply over the whole thing.

Mr. TARDIF: Well, I agree with the suggestion that has just been made, that if it is going to be by tender, the original work that has been specified would come under a certain price and if there are any extras the profit will be so and so. I think that that would probably be a step in the right direction to finding a solution to this particular problem.

The CHAIRMAN: I think we have expressed our views pretty well on this. The Department has been given the Committee's thinking on it and, along with your own, perhaps we can come up with a good solution. We will move on to paragraph 86.

Mr. HENDERSON: Yes. This is a straight case of an existing contract being renewed at a cost of \$26,675 per annum when the departmental records disclosed that if another experienced firm had been given the opportunity to tender it would likely have put in a bid of about \$21,600, a saving of \$5,000 per annum. This is my 1964 report. You will be interested to know that this two-year renewal contract expired on November 30, 1965, and at that time as a result of calling for tenders, a three-year contract was entered into with another contractor at a rate of \$23,700 per annum. As a matter of fact the two contractors referred to here were both underbid on that occasion by two others.

The CHAIRMAN: I imagine the committee would like to know Mr. Baldwin why tenders were not called.

Mr. BALDWIN (*Deputy Minister*): This particular contract falls in the area of what we normally call a service contract where we are purchasing a service. It may be the operation of a parking lot. It may be the cleaning of a building, as was this.

These service contracts are in the difficult area of management decision quite often because you are not operating in the sense that you are when you build a runway or a building, that you have a fixed price per unit. You are buying a service according to certain standards that you may set down. The fact that you get a lower tenderer from one group than from another is not necessarily indicative of the fact that you should accept the low tender because the low tenderer may not give you the type of service that you would want. To give an example in another area, if you will, we have rejected low tenders in the restaurant concession field because we have felt that those particular tenderers were not going to give us adequate restaurant service, even though the bid was the one that appeared the best financially. In the same way, in the building cleaning area, at the time when this particular operation came up—and I would emphasize here that the cheapest bid for cleaning a building is not necessarily the best bid if you want a clean building according to the standards you have set—we were engaged in a series of difficulties on cleaning contracts. This fell about midway in the area. We had had to cancel the contract at Montreal airport for unsatisfactory service with a contractor there because he was not doing a decent job. Now, he had given us the best price, but he did not do an adequate job and we had to cancel the contract. At the time this came before us we were engaged in a major feud, if I may use a slang phrase, with

the Toronto building contractor over exactly the same issue. The subsequent year we had to cancel the Toronto contract which again had been awarded on a low tender basis for inadequate service. The subsequent year we had a similar problem at Ottawa where, in effect, we had to examine two bids and decided that the lowest bid would not qualify in giving us the degree of cleaning we needed on the standards and the second lowest bid was, in fact, accepted. After checking it out Treasury Board agreed with our recommendation and approved it. Within this general area we were considering at the time, and still are—this is a continuing problem—what our best policy should be with regard to terminal service cleaning contracts. We have two cases coming up, Saskatoon and Windsor, the end of their period. Prices have been coming down somewhat but the most recent indications we had were that they had been reaching a plateau. This was pretty well indicated since that time. Some prices went down subsequent to this period; others went up, and they are now again on an upward trend, as might be expected.

We were considering very seriously whether we should go to a five-year tender period instead of a three-year tender period because there are quite obviously advantages if you have got a good price and are getting good service, in continuing an existing arrangement. If you go to a new tender call the price may come in at a higher rate. We have had that experience, not necessarily in the cleaning field but in other fields where, after due thought, we decided we should test the market and call for fresh tenders instead of extending the contract and the first tenders, including the present contractors came in at a higher rate. In the case of both these contracts, Saskatoon and Windsor, we suggested to the Treasury Board that given the circumstances I have mentioned we would like to extend both these contracts—we thought the price was not a bad one, and we were getting good service; it was a matter of management judgment—rather than call fresh tenders.

The fact that a lower price, which was referred to in Mr. Henderson's report, had been mooted to us by another firm as a possibility for Windsor, had not too much effect on our position for the simple reason, as I mentioned earlier, that this is a difficult job where you have to assess the competence of the firm concerned and, to the best of our knowledge, the particular firm concerned here had never made a careful study of the Windsor situation.

The Treasury Board did not agree with our view that it would be wise to extend both these contracts, Saskatoon and Windsor. Saskatoon came up first. When we called tenders on Saskatoon the price came in at so close to the existing price, and it came in from the same firm that already had the contract, that obviously we had gained very little, if anything, by calling fresh tenders and in the light of this we asked Treasury Board again whether they would be prepared to reconsider the view we had expressed about Windsor in view of this experience at Saskatoon. The Treasury Board on this occasion reconsidered and said that in the light of this general information and the difficulties you are having as well as with the Montreal, Toronto and the ones that I mentioned, they agreed to an extension of the contract.

It is true that on a subsequent tender call at Windsor the price came in at, I think, three or four thousand dollars lower; it is equally true that we have somewhat modified our general specifications since that time, reduced them so that general prices have come in a little lower due to lower specifications. I

could not guarantee that if we had called tenders at Windsor on this particular occasion the price would have come in the same or higher. It might have been lower, but this is a case of where we exercised what we thought was a wise management decision designed to try and achieve the best economy for the government. In subsequent cleaning contracts we have been calling tenders basically on a three-year period but I think probably that if there was a clear case where we felt that a renewal of a contract with a satisfactory contractor at the same price would be cheaper for the government and provide adequate service rather than calling fresh tenders, we might well recommend the same course of action again to the Minister. Basically, we do believe in testing the market though at reasonable intervals to ensure that we are being dealt with fairly.

The CHAIRMAN: Are there any questions? That new contract that Mr. Henderson speaks of, three years for \$23,700, to the same firm?

Mr. BALDWIN (*Deputy Minister*): No. It is a different firm, sir.

The CHAIRMAN: Well, then what you have just said, Mr. Baldwin, does not exactly hold true in view of the fact that this was to another firm.

Mr. BALDWIN (*Deputy Minister*): Except that this was at a later date and specifications had been modified by that time, sir.

The CHAIRMAN: Is there anything further? Next paragraph is 88. We spent quite a bit of time on this previously and it had to do with defalcation at Gander International airport. I know you have one or two questions for the officials that are here.

Mr. HENDERSON: We understand, Mr. Chairman, that the department is considering some form of civil court action. Am I not correct? Perhaps Mr. Baldwin could add something to that.

Mr. BALDWIN (*Deputy Minister*): I gather you reported, Mr. Henderson, that there had been modifications in the accounting procedure designed to protect against this situation in the future.

We did take this case to court in Newfoundland. Unfortunately we lost the court case but the individual has been subsequently dismissed.

The CHAIRMAN: Are there any questions?

An hon. MEMBER: There has been no recovery?

Mr. BALDWIN (*Deputy Minister*): Not yet, we are still exploring possible means of recovery.

Mr. LEBLANC: But you have improved the bookkeeping methods used there so that in future such defalcation would not happen.

Mr. BALDWIN (*Deputy Minister*): This is correct.

The CHAIRMAN: When we went over this before, Mr. Baldwin, I think it was mentioned that this defalcation went on over a period of 12 years and amounted in a loss to the taxpayer of \$42,800. The question was, how come it went on for 12 years before it was spotted, and the question arising out of that would be, I think: Do you audit these books yourself from your own Comptroller's department and, if so, how often are they audited?

Mr. BALDWIN (*Deputy Minister*): Mr. Tilley, would perhaps answer on the audit question.

Mr. G. C. TILLEY (*Departmental Financial Advisor, Department of Transport*): Mr. Chairman, with reference to your question about the length of term over which the defalcation occurred, unfortunately, this is not an unusual circumstance in a default of this kind even where audit procedures are considered normal and adequate. Now and then there will be defalcation when you have a dishonest person who is also intelligent enough to know how to go about it. It is also normal that such defalcations will be discovered in a way similar to that which the Gander one was. It was more or less, almost by accident. Then, of course, the history of auditing is that this having happened you take particular precautions in the area in which it happens to make sure that a similar thing cannot happen again.

The CHAIRMAN: I know, but you just have not answered the question. You did not find it in a period of 12 years. Did your auditors go into Gander?

Mr. TILLEY: Yes.

The CHAIRMAN: How often?

Mr. TILLEY: I am unable to say how often the audit is conducted there.

The CHAIRMAN: Well, now wait a minute. You are head of the Comptroller's department?

Mr. BALDWIN (*Deputy Minister*): In fairness of Mr. Tilley, he has only been with the department for a year, Mr. Chairman.

The CHAIRMAN: Maybe you could answer that, Mr. Baldwin.

Mr. BALDWIN: Approximately once a year.

The CHAIRMAN: Approximately once a year. Are you sure they go in once a year.

Mr. BALDWIN: Yes, and under the present system they would be in at least once a year.

The CHAIRMAN: So the department sent an auditor in here once every year for 12 years.

Mr. TILLEY: That is a correct statement.

Mr. BALDWIN (*Deputy Minister*): And there would be local checks made under the airport manager by his staff to keep track of this as well.

The CHAIRMAN: And in view of this they still did not catch this defalcation.

Mr. BALDWIN (*Deputy Minister*): This is a device that is very hard to catch, because of the way that this was done.

The CHAIRMAN: Well, I think this will have to be proven to the Committee. I do not think it has been proven that it is that difficult and that it could not have been found by a complete and good audit. Who found it, your department or the auditor General's?

Mr. TILLEY: It was found by the administrative officer at Gander.

The CHAIRMAN: So it was not even found by your auditor.

Mr. BALDWIN (*Deputy Minister*): Oh, yes. This is our administrative officer.

The CHAIRMAN: I see.

Mr. HENDERSON: This case, I think, Mr. Chairman, involved collusion with the bank officials, did it not?

Mr. BALDWIN (*Deputy Minister*): There was some indication of that, but as I said I would not make a categorical statement in view of the result of the court action.

Mr. LEFEBVRE: How about the manager of the airport?

Mr. BALDWIN (*Deputy Minister*): No.

Mr. LEFEBVRE: For 12 years this went on and he never knew anything about it.

Mr. HENDERSON: It is pretty hard to understand why that would not have come to light over a 12 year period, Mr. Chairman.

The CHAIRMAN: It is beyond me.

Mr. HENDERSON: Granted, if you have collusion with the local bank manager, it makes it tougher, but I would have thought that the person in charge, the administrative man in charge, would have questioned some of the activities going on around him.

Mr. McLEAN (*Charlotte*): Was the same manager at the airport for the 12 years?

Mr. BALDWIN (*Deputy Minister*): No, sir.

The CHAIRMAN: As I recall our previous discussions on this, there was no reconciliation with the bank account. Are we correct on that?

Mr. TILLEY: I do not believe that is correct, sir. The reconciliation, I believe, was made but the figures had been falsified so that they balanced but did not reflect the correct balance.

Mr. HENDERSON: We have a memorandum here on it and perhaps Mr. Long would care to comment.

Mr. LONG: Mr. Chairman, as I mentioned at a previous meeting when we were dealing with this, it is always embarrassing when things like this happen. We isolated the trouble here as being that certain checks which could reasonably have been expected to be made were not made. One of them was the checking of the bank deposit slips through the relevant bank statement for the Receiver General deposit account.

The CHAIRMAN: Would you explain that fully. I am not sure that I follow this.

Mr. LONG: The Receiver General deposit account is an account in which the revenues from the department, from the airport, are deposited, and then subsequently they are transferred to Ottawa—on a fixed time basis. I am not sure if it is weekly or monthly—apparently, the auditors who were in there were not checking the deposit slips against the statements of that account. Now

what ultimately happened was that this man was getting in deeper and deeper all the time.

The CHAIRMAN: Well now, before we get in deeper and deeper here, so I can follow this, the bank deposit slips state a certain amount of money and these were not checked off with the bank statement.

Mr. LONG: With the bank statement, yes.

The CHAIRMAN: Well let us pause right there. How brilliant an auditor do you need to catch that? Here you have your bank deposit slips that say "X" number of dollars are deposited; the bank gives you a statement and you do not check this one with that one.

Mr. McLEAN (*Charlotte*): The double entry system of bookkeeping, is that it? You have your control balances and everything?

Mr. TILLEY: Yes.

The CHAIRMAN: Is that right, Mr. Long?

Mr. LONG: As I was going to say, this man was getting in deeper and deeper all the time and it got to a point where he was making his transfer of funds to Ottawa before he actually had those funds in the bank to transfer, and then he covered this from subsequent revenues. This was, as we understand it, one of the final manipulations that was taking place where the bank people were co-operating with him.

Mr. LEBLANC: Mr. Long, you mention here in the report that it was done by altering duplicate deposit slips. If the duplicate deposit slips were altered, even if they were checked with the bank statement, they would prove to be right because they would show on the altered deposit slips the right amount that was deposited in the bank.

Mr. LONG: No; they were altered to show a different amount and, had they been checked, the difference between the altered total and the amount in the bank statement would have been seen.

Mr. LEBLANC: I see.

Mr. LONG: They were altered to fit what should have been deposited.

Mr. LEBLANC: That is it. They were altered and even if they were called against the bank statement the same amount would have been on both.

Mr. LONG: The altered figure showed what should have been deposited; it did not show what had been deposited.

Mr. McLEAN (*Charlotte*): If they are running a double entry system of bookkeeping with their control accounts, how could they be out if it was audited?

The CHAIRMAN: That is a good question.

Mr. LEFEBVRE: In 12 years, nobody compared the bank statements to the deposit slips at once?

Mr. HENDERSON: That is the point.

Mr. LEFEBVRE: Not once.

Mr. HENDERSON: I do not know that it is the double entry type of bookkeeping system, Mr. McLean, that you were perhaps envisioning in a small business. The receipts are collected and deposited in the bank and the bank account transferred to Ottawa. There is no set of financial statements as such back of it, you know.

Mr. McLEAN (*Charlotte*): It seems to me there should be some control there.

Mr. HENDERSON: It is a point of collecting revenue and remitting the revenue to Ottawa essentially from the airport.

Mr. McLEAN (*Charlotte*): Do they not work with the bank? Does the bank not have to work with them?

Mr. HENDERSON: Yes it should have.

Mr. McLEAN (*Charlotte*): Does the bank balance not enter into it?

Mr. HENDERSON: Yes.

The CHAIRMAN: I think what the Committee is most interested in is what type of an internal audit system have we in the department, not only this department but all other departments? Mr. Baldwin, you say you sent an auditor from your department to Gander once every twelve years?

Mr. BALDWIN (*Deputy Minister*): No, sir, no. I would have to check my facts.

The CHAIRMAN: I mean once a year for 12 years. Is this auditor still in the employ of the department?

Mr. BALDWIN (*Deputy Minister*): I would have to find out. It is not necessarily the same one on every occasion either, with the method of audit we use. We do not deny that there was a serious local error here.

The CHAIRMAN: Well, how many men in your department would be involved in this audit?

Mr. BALDWIN (*Deputy Minister*): At that particular time, a relatively small number; the financial staff in the last couple of years has been substantially strengthened.

The CHAIRMAN: I think the Committee wants to get to the bottom of this. Could you have the auditors appear before this Committee that did the audit work?

Mr. BALDWIN (*Deputy Minister*): Yes, but I would like to check and see exactly who did it.

The CHAIRMAN: We would like the man who did the actual audit work so that we could put questions to him.

Mr. LEFEBVRE: Does this same system prevail at every airport in Canada?

Mr. BALDWIN (*Deputy Minister*): The system that was in effect then has been adjusted since that time.

Mr. LEFEBVRE: Well, there could have been the same thing produced at other airports that we still do not even know about then, if the bank statements have never been checked against the deposit slips.

Mr. BALDWIN (*Deputy Minister*): I would not wish to offer a guarantee on that, but I would not think that the present procedures would, as indicated by Mr. Tilley, permit this sort of situation.

Mr. LEFEBVRE: The present procedures, no, but during the time that this took place.

Mr. TILLEY: I think, Mr. Chairman, the present procedures would uncover or would tend to uncover any past defalcations of a similar nature which could have been taking place at other locations.

Mr. LEFEBVRE: Well, does that mean that you are checking back over 12 years in every airport in Canada?

Mr. TILLEY: No, sir. It means that when an audit procedure is instituted which is expected to catch errors of this type, a checking of the present condition would uncover past errors because this is a sort of kiting operation which depends for its success on being able to replenish incorrectly from one fund to another so that it gradually mounts up, so that it is not necessary to catch it to go back over all past history.

Mr. LEBLANC: Could you tell me what is the procedure when an airport collects some revenue? Do they give out receipts? Is this mostly money or cheques, and do they give out receipts? If so, do they keep copies of the receipts that are issued to the person paying at the airport?

Mr. TILLEY: These are revenues which the airport is receiving for various purposes. Most of them are by cheque because they are, for example, for parking concessions and so on. In any cases where cheques are not received receipts would be issued.

Mr. LEBLANC: You issue receipts only for money and not for cheques?

Mr. TILLEY: I may be incorrect. There may be receipts issued for cheques as well.

Mr. LEBLANC: I was wondering about that because if you could total all the receipts of one day and check with the deposit slips it would be so easy to control the amount of money coming in every day.

Mr. TILLEY: Well, Mr. Chairman, Mr. Henderson or Mr. Long may like to comment further on this. As you know, in the operation of as large an organization as an airport, there must be a rather expensive audit procedure to cover the revenues which are received, and which, I may say, have been growing at a rather rapid rate. These audit procedures are designed as well as possible to protect the government against defalcation of various types. There was one case where the procedure did not succeed in doing that, but it is a fairly extensive program of audit and it covers many sorts of transactions. It does not necessarily check every transaction because if that were to be done it would be necessary to have perhaps forty auditors whereas there are now fourteen in the department.

● (12.55 p.m.)

Mr. McLEAN (*Charlotte*): This was just a kiting procedure.

Mr. HENDERSON: That is correct, Mr. Chairman. That is what it was. And they are the most difficult to locate, because there has to be collusion to make them effective.

I should like to say, Mr. Chairman, that I do think this case underlines the importance of effective internal auditing in government departments, and particularly so today when they are about to embark, as we know, and Dr. Davidson will be talking to you about it, on greater decentralization of responsibility to the departments and curtailing the pre-auditing work and that type of thing. With the work that Mr. Tilley, Mr. Baldwin and his associates are doing, their internal auditing staff and their programs are going to take on tremendous importance because it is quite impossible for me, with the size of my staff, to cover anything other than just tests of these transactions. We call for their reports and check on the frequency with which they go around and generally satisfy ourselves that they are giving reasonably effective coverage. I would hope that the Committee might see fit to make reference to this and to stress it as indicating the importance of this, and particularly when greater authority is going to be given to the department to run their own operations.

The CHAIRMAN: Well, gentlemen, it is two minutes to one. I think we had better adjourn at this point.

We have pretty well completed 1964. There are some items in 1965. Would you agree to sit this afternoon after Orders of the Day? If you do I think we will consider dispensing with our Thursday meeting and sit this afternoon to clean all this up so far as the Department of Transport is concerned.

The meeting is adjourned.

AFTERNOON SITTING

● (3.45 p.m.)

The CHAIRMAN: This is a recessed meeting, and I know there are other members on the way here so, with your permission, we will commence. I think Mr. Baldwin would like to make a correction concerning some evidence he gave this morning in connection with paragraph 84 on page 43 of the 1964 Auditor General's report.

Mr. BALDWIN (*Deputy Minister*): I believe that one of the members, sir, asked whether the firm of architects on this ship had in effect received extra payments for the additional cost that had resulted from their error in design work and possibly through misunderstanding on our part we left the wrong impression in that connection, because I think we indicated he had. In fact, on checking during the luncheon hour we were able to clarify it, the position was that the contract with him was paid in full but it was based on the estimated costs of the vessel and therefore did not include the additional costs that resulted from the faulty design work.

Mr. LEBLANC (*Laurier*): It was based on \$9,915,000.

Mr. BALDWIN (*Deputy Minister*): Yes, sir.

Mr. LEBLANC (*Laurier*): It is 41 per cent then? Because you gave them \$117,000?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. LEBLANC (*Laurier*): We were mentioning this morning that the fees vary between .7 to 1 per cent, and in special cases more than one per cent. That would be a special case where it was more than one?

Mr. BALDWIN (*Deputy Minister*): Yes, sir.

The CHAIRMAN: And the other note that Mr. Baldwin wishes to make concerns paragraph 88, the defalcation at Gander International Airport.

Mr. BALDWIN (*Deputy Minister*): Well, this relates to the question that had been raised with regard to any weakness in the internal audit procedures in the very lengthy period during which this defalcation was going on. Here again, I apologize for not having the correct or full information for the Committee but again, the luncheon hour has enabled us to bring ourselves up to date. During this period for the largest portion of the years involved, in fact, from 1951 to 1961, the actual audit for the Department was carried on by the Comptroller of the Treasury. It was in 1961 that the Department established its own audit procedures for internal audit purposes.

The CHAIRMAN: In 1961?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. LEFEBVRE: Mr. Chairman, I think these two statements by the gentleman here point out something that I would like to know and for the benefit of the other members here. How much notice do the different departments of government get that they will be appearing before this Committee?

The CHAIRMAN: Perhaps our clerk could answer that.

Mr. LEFEBVRE: The reason I am asking is I believe this is one of the committees that deals with every department. They know that they will be coming before this Committee, and some of the answers this morning which were re-answered this afternoon left some of the members in doubt, including myself. I would suggest that the departments should have all the facts and figures available when they come to this Committee so that we could be clear. If we were not meeting this afternoon this would not be in the minutes of today's meeting. I would like to know the opinion of other members of this Committee on this subject.

The CHAIRMAN: Well, in answer to your first question, Mr. Bennett, our clerk, advises us that this notice was sent to the Department of Transport on June 2. They were advised that they were to appear before this Committee.

Mr. LEFEBVRE: Would they also have a copy of this report from the Auditor General?

The CHAIRMAN: Oh, yes.

Mr. LEFEBVRE: Therefore, I cannot see why the departments when they come before us are not fully prepared to answer questions which concern their own departments.

Mr. McLEAN (*Charlotte*): Sir, I would say sometimes the questions are hard to answer, because of the way they are asked.

Mr. LEFEBVRE: Well, they are only dealing with the particular subject before us.

Mr. McLEAN (*Charlotte*): The man that asks the questions sometimes does not just understand what he is asking about. I may ask a question and not just understand it. Invariably I find out before I am through.

The CHAIRMAN: Well, the point is well taken, I know the Committee likes to have the fullest answers possible. On the other hand, as Mr. McLean has said, some of the questions are rather difficult, and so on. However, your point is well taken, Mr. McLean. With regard to this last question, you say the Comptroller of the Treasury was responsible for the audit up to 1961, so if this Committee wanted to question the person who audited the books during that time we would have to ask the Comptroller of the Treasury to have that person appear before the committee? Now we will proceed with paragraph 164, page 128.

164. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1964 was \$605,596,000 compared with \$579,085,000 at the same date in the preceding year, a net increase of \$26,511,000 for the year under review.

The revenue from civil aviation airport operations for the year ended March 31, 1964 amounted to \$16,971,000 compared with \$15,519,000 in the preceding year. Details of this revenue, together with comparable figures for the preceding year, are as follows:

	Year ended March 31	
	1964	1963
Aircraft landing fees—		
Domestic	\$ 3,609,000	\$ 3,235,000
Trans-oceanic	3,478,000	3,074,000
Trans-border	992,000	753,000
Other	15,000	23,000
	<u>8,094,000</u>	<u>7,085,000</u>
Rentals—		
Office, shop and garage space	1,425,000	1,239,000
Living quarters	361,000	386,000
Hangar	183,000	197,000
Other	1,036,000	1,077,000
	<u>3,005,000</u>	<u>2,899,000</u>
Concessions—		
Gasoline and oil	1,927,000	1,881,000
Other	2,200,000	1,824,000
	<u>4,127,000</u>	<u>3,705,000</u>
Miscellaneous revenue	1,745,000	1,830,000
Total revenue	<u>\$16,971,000</u>	<u>\$15,519,000</u>

The parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Transport Vote 145) was charged with expenditures totalling \$20,281,000 for the year 1963-64, an increase of \$526,000 over the corresponding figure of \$19,755,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the 1963-64 Public Accounts, was therefore \$3,310,000, decrease of \$926,000 from the preceding year's figure of \$4,236,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for approximately 88% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes provision for depreciation of civil aviation facilities (though not the other costs referred to), for the year ended March 31, 1964 is given as an appendix to the Department's section of the Public Accounts.

Mr. HENDERSON: In considering this paragraph, Mr. Chairman, I would suggest that you also include paragraph 214 of the 1965 report on your list because it deals with the same subject.

214. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1965 was \$629,007,000 compared with \$605,596,000 at the same date in the preceding year, a net increase of \$23,411,000 for the year.

The revenue from civil aviation airport operations for the year amounted to \$22,441,000 compared with \$16,971,000 for the preceding year. Details of this revenue, together with comparable figures for the preceding year, are as follows:

	Year ended March 31	
	1965	1964
Aircraft landing fees—		
Domestic	\$ 3,822,000	\$ 3,609,000
Trans-oceanic	6,243,000	3,478,000
Trans-border	992,000	992,000
Other	27,000	15,000
	<hr/> 11,084,000	<hr/> 8,094,000

Rentals—		
Office, shop and garage space	2,298,000	1,425,000
Living quarters	364,000	361,000
Hangar	173,000	183,000
Other	1,189,000	1,036,000
	<u>4,024,000</u>	<u>3,005,000</u>
Concessions—		
Gasoline and oil	2,063,000	1,927,000
Other	3,160,000	2,200,000
	<u>5,223,000</u>	<u>4,127,000</u>
Miscellaneous revenue	2,110,000	1,745,000
Total revenue	<u>\$22,441,000</u>	<u>\$16,971,000</u>

The provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Department of Transport Vote 35) was charged with expenditures totalling \$24,114,000 for the year 1964-65, an increase of \$3,833,000 over the corresponding figure of \$20,281,000 for the preceding year. The excess of expenditure (excluding new construction) on airways and airports over the revenue received was therefore \$1,673,000, a decrease of \$1,637,000 from the preceding year's figure of \$3,310,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for approximately 91 per cent of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to), for the year ended March 31, 1965 is given as an appendix to the Department's section in Volume II of the Public Accounts.

The members will note that airport operations are dealt with in this section of my report covering departmental operating activities, and that we show only the total revenue picture on a comparative basis. The expenditure on airport operations is paid from Department of Transport vote 35 and as you will note from these paragraphs has been increasing each year. It was \$19,705,000 in 1962-63; \$20,281,000 in 1963-64; and \$24,114,000 for the year 1964-65. Although revenue has been increasing and particularly so in 1965 over 1964, there still

remains an excess of expenditure over revenue which for 1965 amounted to \$1,673,000. However, these results are simply the results recorded on a cash basis. The costs do not include provision for amortization of airport construction costs, interest on funds employed or other costs such as the portion of the expenditure charged for air service administration which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined.

We go on to explain in this note that the Department does, however, maintain accounts on an accrual basis for its operations in 17 of the major airports which account for around 91 per cent of the revenue from civil aviation airport operations, and, from this information it does prepare periodic financial statements for management purposes. There is a consolidation of these statements contained in an appendix to the departmental section in volume II of the public accounts. You may have some questions you would like to direct to Mr. Baldwin on these figures I have given you, perhaps based on the statements made on page 175 of my 1965 report. That shows a substantial increase in the total revenue for the year from \$16,971,000 to \$22,441,000, and as you see, most of it is in aircraft landing fees, trans-oceanic. Would you like to explain that, Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): Well, I think the main feature I could comment on there, sir, is that this is the area of commercial aviation which has had the most rapid rate of growth during that period and this shows some indication of repeating itself this year.

The CHAIRMAN: As I understand your point, Mr. Henderson, you are showing the Committee in your report that the total revenue is increasing considerably but their appropriations for operation and maintenance are also increasing considerably. So, the net result may not be in proportion to the grain in revenues.

Mr. HENDERSON: I also go on to point out, Mr. Chairman, that they do not include in their total expenses here all of the cost factors which they should if they were going to prepare a usual profit and loss type of presentation. The expenditures are paid from Department of Transport vote 35, and in presenting the figures they do not include these other costs which are provided free by other agencies of the government. We are hoping that the day will come when that will be done, but in the meantime the Department itself does keep good and all-inclusive accounts for the individual airports so that it knows how its revenues and costs of operation are progressing as between one airport and another. Would that not be a correct statement, Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): We try to operate each on a local budget responsibility basis.

The CHAIRMAN: All right, page 176 of the 1964 report, paragraph 32, cost of access roads, Chatham Point, B.C.

32. COST OF ACCESS ROAD, CHATHAM POINT, B.C.—The Department of Transport maintains a light and fog alarm station at Chatham Point, B.C., which prior to 1963 was serviced by departmental Coast Guard ships. When the Department decided to estab-

lish a meteorological observing station at the same location, it was considered in 1961 that economies would result from the construction of an access road to the site to service the expanded facilities. After work on the access road was well under way, a change in plans for the area led to the cancellation of the meteorological station project at Chatham Point. The road, completed at a cost in excess of \$55,000, is therefore utilized to provide access by land to a light station staffed by only two employees. It is not evident that this outlay would have been incurred for that purpose only.

Mr. HENDERSON: This is the first of one or two non-productive payments and this item describes how a road was completed at a cost in excess of \$55,000 for the purpose of serving a meteorological observing station which the Department had planned to erect close to Chatham Point, B.C. However, as a result of a later decision by the Department the meteorological station project was cancelled. But the road was already under way and so it was decided to complete it. The only purpose it serves at the present time, I understand, is to provide access to the light station which as I have stated in the note has a total staff of two.

Mr. LEBLANC: And the cost was?

Mr. HENDERSON: The road cost \$55,000 and it is used by two people.

Mr. LEBLANC: I wonder if we could have additional information regarding that matter from Mr. Baldwin. How come the plans were changed while the road was being built?

Mr. BALDWIN (*Deputy Minister*): The main reason was, I think, as described in the Auditor General's report, the road was originally planned when it appeared that certain telecommunications establishments on the B.C. coast, notably, I think, at Alert Bay and Bull Harbour, were to be closed down and this would have eliminated an important meteorological reporting point. It was therefore decided that the meteorological staff involved would have to be relocated at this light station. During that period the telecommunications branch in an attempt to re-orient or re-organize its west coast operations was asked to review this matter again to make sure that this was the proper decision, and the review led to a decision to retain the Alert Bay and Bull Harbour stations rather than close them out. There were numerous representations from local interests that they should not be taken out. It is therefore the fact that if it had not been for this particular change in plans we would not have built this access road at that particular time. I think it is also the fact that we would have, in any regard, even with a two man light station, built this access road in our program. This is something we are doing wherever possible with light stations, because it makes it possible to serve them by land instead of serving them by ship.

I would think that the program item would have come considerably lower in the priority list but would have been carried out nevertheless. I will just take these figures as an example. If you assume that the road is good for 50 years—maybe this is a generous estimate—and that we also have to spend \$1,000 a year repairing it, this represents an over-all annual cost of around \$4,500 capitalized for the road. It is now costing us between \$15,000 and \$20,000, or it was costing us this amount, to supply that station by ship per year.

Mr. LEFEBVRE: That much?

Mr. BALDWIN (*Deputy Minister*): That much, and this is not out of the way in the way of costs for supplying a remote lighthouse that has no road communications.

Mr. MUIR (*Lisgar*): Well, I was just going to ask Mr. Baldwin if in the long experience he has had in government he has found that this happens often anyway. We have had departments appear before us in committees and we find that plans are made; they are shelved after a great amount of money has been expended and I am sure, as I say, in the experience you have had with government, you find that this probably happens too often. How can we avoid these things?

● (4.00 p.m.)

Mr. BALDWIN (*Deputy Minister*): I would agree Mr. Muir, that this does seem to be almost inevitable in the process of government departments. It does happen too often. It should not happen as often as it does. I do not think it can ever be completely avoided because circumstances change. But, I would hope that the risk of this type of situation happening would be, to some extent, eliminated by better advance program planning on the part of the branches and departments of government generally, including our own. On the other hand, if you improve your forward planning and make it more accurate you do run the risk of having to make further adjustments because of technical changes or changes in circumstances between the time you draw up your program and the time you are able to implement it. So there is a sort of chicken and egg situation that is very hard to get at. All I can say is that I agree this happens more often than it should and we are very disturbed when it does happen.

Mr. MUIR (*Lisgar*): Is there any co-ordination between the various departments with regard to long term planning?

Mr. BALDWIN (*Deputy Minister*): Where there would be an overlap in interests, yes, sir. Although I am not sure this has reached the stage that it probably will achieve because the program for introduction of long term planning, which is part of the new financial management program has not been introduced or implemented to an equal degree in various departments. Some are considerably farther advanced than others in respect of this. The basic co-ordinating level would, I assume, be the Treasury Board.

The CHAIRMAN: In this particular case these two departments were within the same department?

Mr. BALDWIN (*Deputy Minister*): This is all part of Department of Transport responsibility.

The CHAIRMAN: This is not like the situation we ran into in the Department of Public Works where they were asked to erect a building for another department and there was a shuffle between two departments. This is all within the one department, which makes it a little more serious. How long would the road be in mileage?

Mr. BALDWIN (*Deputy Minister*): I am sorry, I do not have that information. I should have it but I do not at this stage.

The CHAIRMAN: Does anybody else from the department know?

Mr. HENDERSON: It is a 13 acre area, I believe.

Mr. BALDWIN (*Deputy Minister*): I think it is roughly that.

Mr. HENDERSON: I suppose it might be half a mile, or something like that. This goes from the shore up to the main highway.

Mr. BALDWIN (*Deputy Minister*): That is right.

The CHAIRMAN: Are there any further questions?

Mr. LEFEBVRE: In view of the statement made by Mr. Baldwin, I think this should be removed from the non-productive items because it looks like we are saving \$15,000 a year. Certainly it is not a waste of money; it is a gain.

Mr. HENDERSON: I will admit on the basis of Mr. Baldwin's statement that it is a borderline case. However, the facts that he gave you are familiar to us, and I think it all depends on which end of the proposition you look at, Mr. Lefebvre. I think there are two ways of looking at this and I thought Mr. Muir's remarks pretty well summed that up.

The CHAIRMAN: All right, paragraph 33.

33. COST OF UNSUCCESSFUL ATTEMPT TO RECONSTRUCT LOCK ENTRANCE WALL, BOBCAYGEON, ONT.—In 1961 the Department of Transport entered into a contract for the reconstruction of an entrance wall to a lock on the Trent Canal at Bobcaygeon, at an estimated cost of \$34,262. The plans and specifications for the work were prepared by departmental engineers. The required method of carrying out the work was to place a cofferdam across the canal downstream from the area where the wall was to be rebuilt and to de-water the area between the cofferdam and the lock so that the rebuilding of the wall might be carried out in the dry. Although the contractor was able to complete a portion of the work, for which he was paid \$8,991, he was unable to proceed with the major part because of inability to de-water the working area and in August 1962 the contract was terminated. During the year under review, after the Department had determined that it was not economically feasible to place and maintain a cofferdam as had been originally set out in the specifications, the contractor was paid an additional \$30,631 to compensate him for costs incurred in his abortive attempt to complete the contract.

The Department subsequently undertook to complete the work by a method which would allow the wall to be reconstructed without having the area de-watered, at an estimated cost of \$45,000.

Mr. HENDERSON: The contractor here was on a firm lump sum and unit price basis. The method specified for doing this job had apparently been successful in other parts of the Trent Canal System, and when the specifications were prepared the departmental engineers had no reason to believe that it would not work on the lock in question. We noted that when the department was applying to the Treasury Board authority to pay the contractor's bill it stated and I quote:

It is true that in all probability if the canal staff had had a larger complement of engineers at the time the plans and specifications were

being prepared a more detailed study of the site conditions would have been made and sufficient information might have been obtained which would have changed the method of doing the work.

At all events, the unsuccessful attempt by the contractor was comparatively costly because in an effort to complete the work he adopted a different method of cofferdamming which sought to cut down the size of the area to be dewatered. This did not work because water continued to enter the area through the rock strata underneath the cofferdam. The amount paid was the cost including 10 per cent for overhead and profit. The Department subsequently undertook to complete the job by a new method which would allow the wall to be reconstructed without having the area dewatered. The actual additional cost was \$41,822. We said in the report that we thought the estimated cost would be around \$45,000.

Mr. BALDWIN (*Deputy Minister*): I do not think I have too much to add to the Auditor General's comments. The facts are exactly as he has stated, sir. The method used in respect of this project was the method that had been used previously on the Trent system at other points and has been used since at other points. The engineering investigation was of the type that we have normally done and it subsequently developed that at this particular point there was a very deep rock strata leak of water which made it completely impossible for the project to be carried out on the basis that had originally been planned.

The CHAIRMAN: All right. Paragraph 87.

Mr. HENDERSON: Before we leave the 1964 report, the last one here is paragraph 87, federal contribution to cost of ferry vessel and it is shown separately on the guide sheet because it has to do with the Canadian Maritime Commission. This matter was discussed by you briefly on May 12 but as you may recall it was left over pending discussion with officials of the department.

This rather lengthy note shows how a company with a paid up capital of only \$180,100, that is according to its balance sheet at September 30, 1963, was supplied with various forms of federal assistance exceeding \$4 million for the purpose of establishing a roll-on-roll-off car ferry and passenger service between Pointe-au-Père and Baie Comeau. It should be fairly noted, I think, that the company threatened to suspend operations of the vessel because of its financial position and the government then agreed to pay an additional subsidy. It will also be seen that although the amount advanced by way of subsidy was substantial, the government on two occasions accepted a second mortgage as security, thus permitting the company to give a first mortgage as security for outside loans. I do not know what further questions members may have today on this paragraph, Mr. Chairman.

The CHAIRMAN: You have the chairman of your committee here? The chairman of the Maritime Commission is with us. Are there any questions you wish to direct to him or would you like to—

Mr. BALLARD: Mr. Chairman, when was this first mortgage given to an outsider. Was it given after the government funds were advanced?

The CHAIRMAN: Mr. Darling, would you like to answer that?

Mr. H. J. DARLING (*Chairman, Canadian Maritime Commission*): Yes, Mr. Chairman. The first mortgage was given in 1962. The original agreement with the company was to pay a \$300,000 subsidy a year over a five year period. The company was responsible for making its own financing beyond that for the ship. The company bought the ship and had to finance the balance. It had a mortgage of \$900,000 on the ship. When the company was in difficulty two years later, in 1964, the remainder of the subsidy was paid, enabling the company to refinance their first mortgage debt. They did this by paying off about two thirds of the balance and putting in a new first mortgage at a lower rate of interest, at a considerable saving. This was merely a re-arrangement of its first mortgage liabilities. Our second mortgage, which was specified in the original agreement, was a contingent liability. It was only there as a surety that the company would carry out its terms of contract to operate the service for five years, terminating January 1, 1967.

Mr. MUIR (*Lisgar*): I am wondering how a federal department got involved in this in the first place.

Mr. DARLING: Mr. Chairman, these events happened prior to my association with the commission and I do not believe the commission took the initiative in this particular proposal. It was merely carrying out the policy which had been determined.

Mr. BALDWIN (*Deputy Minister*): I think this falls within the general category—and I speak only from general knowledge, Mr. Muir, without being directly concerned at the time—of the policy of assistance to ferry services across the St. Lawrence River that had applied in a number of cases during that period.

The CHAIRMAN: Is the ferry operating today and the company operating successfully?

Mr. DARLING: It is operating today with the assistance of \$50,000 annual subsidy from the province of Quebec.

The CHAIRMAN: Are there any further questions? If not, the 1965 Auditor General's Report on page 81, paragraph 127.

127. *Claims resulting from completion of air terminal building ahead of schedule.* Unusual circumstances were associated with a negotiated settlement for damages claimed against the Department of Transport during the year under review.

Prior to 1960 it became apparent to the Department that the new airport facilities at Edmonton would be completed several years in advance of the availability of a new permanent air terminal building. The erection of a temporary structure for the purpose was not proceeded with when it became known that a company which was planning to construct a major hangar at the new airport would make interior alterations which would enable the building to be used as a temporary terminal. In 1960 the Department entered into a lease for space in the hangar and in so doing became obligated "to use and in fact to occupy the demised premises and maintain the same as the administrative centre and terminal for the said airport for the duration of the term hereby created", which was for the period November 14, 1960 to September 30, 1964.

A number of airlines, caterers, taxi companies, etc., which in other circumstances would have rented space in a Crown-owned terminal building, also entered into lease agreements which they made directly with the owner of the hangar. In each case these individual lease agreements provided that the term would not extend beyond the date on which a permanent terminal building was occupied by the Department of Transport.

The new terminal was unexpectedly completed and ready for occupancy by December 1963. The Department of Transport and all of the other tenants terminated their leases and moved to the new premises with the result that the owner of the hangar lodged the following claims against the Department:

1. Claim for rental due by the Department for the period December 1, 1963 to September 30, 1964. This amounted to \$60,000. The claim was not disputed by the Department which had not foreseen the possibility that the new terminal would be ready prior to September 30, 1964. As it had obligated itself in the lease to pay rental until that date, the claim was paid in full.

2. Claim for damages resulting from loss of revenue due to the terminated leases of the airlines, caterers, taxi companies, etc., who also moved to the new terminal when it was ready for occupancy. The net amount of this claim, based on the total rentals of these tenants for the period December 3, 1963 to September 30, 1964, totalled \$80,000. Negotiations with the owner of the hangar by the Department of Justice resulted in a settlement of \$62,000 which was paid by the Department during the year.

Mr. HENDERSON: This note in paragraph 127 is on page 81 of the 1965 report, and from then on we follow all of the next numbers almost in sequence. This particular note describes what is a non-productive expenditure of over \$120,000. As is explained in subparagraphs 1 and 2 at the top of page 82, the Department not only had to pay for the period of ten months to September 30, 1964, but also to compensate the lessor for his loss of revenue due to the terminated leases of a number of airlines, caterers, taxi companies and so forth at the Edmonton airport.

This is a case which the departmental officials will probably want to explain to members, I suggest, in some detail. We note that the Department's representative on the spot said that he was actively engaged in negotiations with the lessor company and that at no time did any question arise of the department guaranteeing revenue to the company for all tenants in the building in the event of termination. He said that if such a point had been raised it would have required detailed negotiation before the Department entered into any such commitment, adding that in fact, at the time of signing the lease no one knew what the total income from the building would be, least of all, the lessor himself. As soon as the temporary terminal was opened, the lessor negotiated with various concessionaries and others to provide services for the building, thereby increasing its revenue. He said that the revenue was always regarded as being solely the lessor's and that the Department of Transport was

not concerned with it in any way. It is against this background that it is hard to see why the Department paid the claim.

The CHAIRMAN: This is a little different case. We completed a building ahead of schedule in this case. Most times it has been behind schedule. Mr. Baldwin perhaps you might explain.

Mr. LEFEBVRE: That will throw the Committee all off.

The CHAIRMAN: That is right. It throws us off base here.

Mr. BALDWIN (*Deputy Minister*): Yes, perhaps three points are relevant, sir. The first was that when it became apparent to the Department or at least when we decided that temporary terminal facilities would be required our original intention had been to build these ourselves and operate them to apply to the period pending completion of the permanent terminal at the airport. We had some lay-out plans ready and knew pretty well what this would cost us to build and operate. At that stage the suggestion was made to us that it would be more economic, and proper policy as well, if instead of doing this ourselves, we were to enter into an agreement with a company which was in the aviation business and which had an interest in providing a hangar at the airport in the long run and this could be used as a temporary terminal meanwhile. It would encourage them to put the hangar in as a start for operations at the airport. The decision was taken to explore this possibility. We took several soundings in the area. We found there was only one company interested in this and we then made the best possible negotiated deal with them for this purpose. The understanding being that this would cost us less, as in fact it did, than building a temporary terminal ourselves and running it for this period.

The second point is that the remarks made by Mr. Henderson are quite right in the sense that when we negotiated that contract it had not been our understanding that we were assuming liability for what is in effect the second item mentioned in his statement, "the claims for damages resulting from loss of revenue due to the earlier termination of private contracts within the terminal."

This claim was submitted to us by the hangar owner and was very actively disputed by both the Department at the regional level and the departmental airport staff at the headquarters level as never having been part of the contemplated arrangement. There was nothing on our records to show, certainly, that this was the case. Nevertheless, both our own legal officers within the Department and the legal officers of the crown advised us that there was one clause in our agreement with the company which was subject to a dual interpretation and which could be interpreted to justify the claims submitted by the owner. In view of this legal advice a decision was taken to settle on the basis indicated. I may say that this was a matter which engendered quite a considerable amount of bitterness between senior departmental airport officials and the company. Our officers felt that the company pulled a fast one on them, quite frankly, in this.

The CHAIRMAN: Mr. Baldwin, may I interject with a question here so we can follow it. Was the contract that was drawn up for the agreement drawn up by the same legal authorities that you got your advice from when the dispute arose?

Mr. BALDWIN (*Deputy Minister*): The contract was originally drawn up in consultation between the private company concerned and the airport's branch in a form that was not unknown. It was reviewed by our legal officials at the time.

The CHAIRMAN: But it was not the same?

Mr. BALDWIN (*Deputy Minister*): It was not reviewed by the Department of Justice at the time.

The CHAIRMAN: Who drew up the contract; the people in your department?

Mr. BALDWIN (*Deputy Minister*): People in our department in consultation with the representatives of the company.

The CHAIRMAN: Your legal branch?

Mr. BALDWIN (*Deputy Minister*): I think the first draft was prepared by the company itself. It was reviewed by our airport's branch which expressed itself as satisfied and we asked our legal authorities to review it as well.

The CHAIRMAN: And they O.K'd it?

Mr. BALDWIN (*Deputy Minister*): Yes, they O.K'd it at that time.

The CHAIRMAN: Then when you got into trouble and the dispute arose, who did you go to settle the dispute? What legal advice did you get?

Mr. BALDWIN (*Deputy Minister*): We went to our own legal branch and our own legal branch informally consulted the Department of Justice on this matter.

The CHAIRMAN: So the same legal people were involved all the way through?

Mr. BALDWIN (*Deputy Minister*): Within the Department, not the Department of Justice.

Mr. BALLARD: Well, Mr. Chairman, this is quite a departure from all legal practice, when a company can sue for the action of a third party. I am sure Mr. Henderson must have received some written submissions from the Department of Justice in connection with this and I am wondering if he could report to us on that submission.

Mr. HENDERSON: We did not ourselves communicate with the Department of Justice staff, Mr. Ballard, nor did I submit the case to my own legal advisers. We accepted the Department's explanation. I have here the letter from the Department of Justice written to Mr. Baldwin indicating their views on the case after studying it. What they had to say, Mr. Baldwin has explained to you. Whether this would have been the view of my own legal advisers I am not in a position to say because I did not ask them in that particular case.

Mr. Baldwin (*Deputy Minister*): The Department nor the company indicated it proposed to sue on this account. I think quite frankly, sir, that we in the Department would have been quite prepared to go to court and our own legal advisers within the Department felt there was enough in this to justify letting the matter go to court. However, the over-all decision was taken on the advice of the Department of Justice which felt on the whole it would be wiser to negotiate a settlement than to go to court.

Mr. BALLARD: Well, then, tell me this Mr. Baldwin. I would assume that you do rent property in various places?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. BALLARD: Does your Department not have a sort of pro forma lease agreement that they use or do you very often or always rely on the lessor's solicitor.

Mr. BALDWIN (*Deputy Minister*): We have a valid form of legal agreement but this was a unique case. I do not think this had ever happened before and it has never happened since in our experience; this particular type of arrangement where we enter into an agreement with a private company to provide a terminal facility for us including facilities for others.

Mr. HENDERSON: Mr. Chairman, I might ask Mr. Long to just read the paragraph in the lease on which this case turned, and you will see why, when Mr. Baldwin said he was prepared to go to court on it, he speaks very feelingly.

Mr. G. LONG (*Assistant Auditor General*): Mr. Chairman, one of the clauses in the lease, the important clause is:

To use and in fact occupy the demised premises and maintain the same as the administrative centre and terminal for the said airport for the duration of the term hereby created.

Mr. MUIR (*Lisgar*): Mr. Chairman, when it reads like that I think the other lessee broke the agreement in the first place by moving into your building. You took the lease for the whole building, to maintain it, and yet he turns around and rents part of a building which he has already leased to you, to caterers and so on?

Mr. LONG: No; that is not quite right. The demised premises consisted of 11,133 square feet of space to be occupied by the Department of Transport, airport management, meteorological services, air traffic control, together with accommodation for customs and immigration and post office.

Mr. MUIR (*Lisgar*): What part did the other people occupy?

Mr. LONG: Well, this was not the whole space of the hangar but this clause calls, or apparently has been interpreted as calling, for this premise to be used as the airport thereby requiring these other people to be there in the other areas of the hangar.

Mr. HENDERSON: Perhaps Mr. Baldwin will correct me on this, but the heart of the whole operation moved out when the Department of Transport moved along with these other offices that are named there, and accordingly that naturally meant that all the subsidiary people, caterers, taxi companies, and so on, had to go to. That was why they felt the Department of Transport was responsible for starting the whole exit.

Mr. LEFEBVRE: There is something that perhaps I missed along the way here, but why did the government have a different type of lease than the private companies. They had a clause there that they could get out of it and yet the government could not?

Mr. BALDWIN (*Deputy Minister*): I think the answer to that is that the company, the prime company concerned with whom we dealt, refused to go

ahead with this deal unless it had in effect the sort of guarantee contract from the federal government as the principal party concerned that it would consider adequate to justify it in making the capital investment involved. Now, as a matter of fact while none of us in transport were at all happy over having to pay this extra amount, in fact, most unhappy as I think I have indicated and would have been quite happy to see this go to court in fact, we still are quite a lot in hand in terms of the cost to the government, in the total cost involved in this deal, as compared to the total costs which would have been involved if we had attempted to build a temporary terminal and run it ourselves. The rough comparison my own people gave me, and of which I have a detailed breakdown, is I think, \$340,000 in the one case as compared with between \$500,000 and \$600,000 in the other case.

Mr. LEFEBVRE: There has been a saving of the difference, you mean?

Mr. BALDWIN (*Deputy Minister*): Yes, even though we paid this extra claim against our wishes and perhaps better judgment, we are still money in pocket as compared with what would have happened had we put up the temporary terminal that we had planned to do and run it for the period of years involved and then tried to get salvage value out of it.

Mr. LEFEBVRE: Well that sounds a lot better than what we were led to believe in this particular paragraph 127.

Mr. BALDWIN (*Deputy Minister*): Well I do not think Mr. Henderson was commenting on that.

Mr. HENDERSON: No, I was not commenting on that aspect.

The CHAIRMAN: It still does not justify the claim. Who decides whether you take this to court or not?

Mr. BALDWIN (*Deputy Minister*): Well we usually consult the Department of Justice, and I believe that in the final analysis it would be a combination of decision by the Department on the Department of Justice advice by the Minister and the Minister of that department.

Mr. HENDERSON: In answer to Mr. Ballard's question earlier, Mr. Chairman, he asked me if I could perhaps have got legal advice from my legal advisers. It has not been my practice, thus far, to ask my legal advisers to check on what has been, so to speak, a finished transaction like this. I am rather more interested in using their services on interpretations and some of the other cases we have been discussing. I do not know whether the members feel that I am right in this case. It seemed to me that as the money had been paid it would just be largely an academic exercise and I would therefore be wasting their money. Although, I did think from a reading of it that as Mr. Baldwin said there was an exceptionally good case notwithstanding the Department of Justice opinion, to go after them because it seemed totally unrealistic.

Mr. BALLARD: Mr. Chairman, I did not mean to imply that the Auditor General ought to ask for other legal opinion. What I wanted from him was the statement made to him by the Department of Justice when he was reviewing the case.

Mr. HENDERSON: We have that right here, as I told you, Mr. Ballard.

Mr. BALLARD: To find out directly from you to us the attitude of the Department of Justice.

Mr. HENDERSON: It is as Mr. Baldwin described it.

The CHAIRMAN: No further questions?

Mr. LEFEBVRE: Do we have many more of this type of contract?

Mr. BALDWIN (*Deputy Minister*): None that I am aware of.

The CHAIRMAN: The next is paragraph 128.

128. *Cost of re-roofing air terminal building, Gander, Nfld.* The roof of the new air terminal building under construction at Gander for the Department of Transport was completed in 1957. The company which supplied the roofing material provided a bond under which it guaranteed to maintain the roofing membrane over the insulation for a period of twenty years at its own expense, excepting repairs required for any cause other than ordinary wear and tear by the elements.

In 1962 it became apparent that the roof was leaking and the company was requested to make repairs in accordance with the terms of the bond. It successfully disclaimed responsibility because the damage had resulted from the use of the roof as a storage area and a right of way by personnel of both the Department and the building contractor and could not be attributed to ordinary wear and tear by the elements. In 1963 conditions were such that it was necessary to enter into a contract for the re-roofing of the building at a price of \$77,000, none of which can be recovered.

Mr. HENDERSON: In paragraph 128 you see how a roofing company refused to fulfil its guarantee bond because the damage had been caused by departmental personnel and by the building contractor. The bond stated that the company would at its own expense make or cause to be made any repairs excepting repairs of injuries from any cause other than wear and tear by the elements and that this bond would extend for a period of 20 years. We tried to find evidence that the Department sought to recover part of the sum of \$77,000 from the contractor in view of the fact that he in turn was partly responsible for the failure of the roofing manufacture to implement his guarantee. However, it would appear that the contractor was not contacted in this connection although I should like to ask Mr. Baldwin if he can throw any further light on this.

Mr. BALDWIN (*Deputy Minister*): Yes, there is some similarity between this item and the previous one in one sense, except that in this particular instance we within the Department came to the conclusion, quite frankly, sir, that while there might be some responsibility on the part of the roofing contractor, the departmental personnel in the field had been at fault in some regards and this would make it very difficult to prove our case in law.

It has been customary, and it is customary in many cases, to make use of roofing surfaces for storage purposes during building construction but in this particular case we were not satisfied that the regional engineer or the local engineer in charge of the project had exercised as careful supervision in this regard as he should have in respect of storage by the prime contractor on the roof. It was also the case that we felt compelled to make certain alterations to

the roof ourselves for the purpose of installation of meteorological instruments that were to be put in service and which were required by the meteorological branch. Basically, while we still feel there was some responsibility on the roofing company, I feel I must accept the fact that our own actions were at fault in this regard in part at least.

The CHAIRMAN: Could you elaborate further on using the roof for storage area. Why would you use the roof for storage area?

Mr. BALDWIN (*Deputy Minister*): To get materials there ready of access and to keep them where they are being used, sir, in a variety of circumstances.

The CHAIRMAN: Were you building an addition to this building?

Mr. BALDWIN (*Deputy Minister*): This was a new building, a completely new building.

The CHAIRMAN: I still do not follow it.

Mr. LEFEBVRE: This was during the construction period of the building only?

Mr. BALDWIN (*Deputy Minister*): During the construction period of the building.

The CHAIRMAN: Well, the contractor had finished this roof and given you a 20 year bond on the roof; he had fulfilled his obligation. Everything was all right up to that point. Then the Department of Transport used the roof for a storage area for building materials.

● (4.30 p.m.)

Mr. BALDWIN (*Deputy Minister*): And as a secondary working area during the period of construction.

The CHAIRMAN: Well—

Mr. McLEAN (*Charlotte*): It was a flat roof?

Mr. BALDWIN (*Deputy Minister*): A flat roof, yes.

The CHAIRMAN: Did you contract this building out to a contractor?

Mr. BALDWIN (*Deputy Minister*): Yes.

The CHAIRMAN: Well, how is it you were involved at all, then? Would not the contractor be involved?

Mr. BALDWIN (*Deputy Minister*): We have a building superintendent sir, a regional—I do not know how to describe him—a local engineer from the Department of Transport who, is in charge of a project such as this.

The CHAIRMAN: You called tenders to build this building?

Mr. BALDWIN (*Deputy Minister*): That is right.

The CHAIRMAN: And you got a firm tender to build it from a contractor?

Mr. BALDWIN (*Deputy Minister*): That is right.

The CHAIRMAN: Well why were you involved at all then? The contractor that you gave tender had the full responsibility?

Mr. BALDWIN (*Deputy Minister*): No, because we permitted him, our regional engineer has certain controls over the procedure that is used in the

course of the construction and we permitted the contractor to follow this procedure. I do not think we should have, in fact.

Mr. LEFEBVRE: This was a miscalculation on the part of your district engineer?

Mr. BALDWIN (*Deputy Minister*): The local engineer, yes, who was in charge of the project at the time?

Mr. McLEAN (*Charlotte*): And the whole trouble was the roof leaked?

Mr. BALDWIN (*Deputy Minister*): And the whole trouble was that the roof leaked afterwards, that is right.

Mr. SOUTHAM: Mr. Chairman, it is interesting to note that it was actually during the process of the construction of the whole building itself. If you are going to take out a 20 year bonded roof—I have had some experience with bonded roofs and if they are put under established proper supervision they do carry out the conditions of the bond. Now, there is a definite indication of carelessness here on the part of the personnel, it says, both of the Department and of the building contractor in using it as a storage area and a right of way. There is somebody definitely at fault. Now did you not have recourse to take action against somebody here to make good that roof so that it would qualify for the bond? In other words, if within a period of five years—this is interesting also—from 1957 to 1962.

Mr. BALDWIN (*Deputy Minister*): Yes, yes. I can give you a short calendar of various events which were taking place during that period if it will be a help, Mr. Chairman.

The CHAIRMAN: Well, if it is short I would like to hear it because I cannot figure this out.

Mr. BALDWIN (*Deputy Minister*): We took occupancy of the building in May 1959, although the construction had not been fully completed at that time, formal handover of the building taking place approximately two years later, under the contract. In the fall of 1960, acting on local reports, the consultants we employed for design of this project investigated the reports from the local people of the roof leaking and took it up with the roofing subcontractor, and did report that there was minor leaking attributable to defective roofing membranes and major leaking attributed to penetration of curtain wall joints by wind driven rain, and that more effective caulking of joints was being carried out to try and remedy the situation. When the take over took place in 1961, it is common on such an occasion, when there is a handover document, to have what you call a deficiency list which is still items for which we hold the contractor responsible. Roof leakage was included in the deficiency list when we took this over in 1961. The consultant in the autumn of 1961, at a later date, after the take over, did report to us that he believed he was satisfied the roofing deficiency had in fact been satisfactorily eliminated by the repair work that had been carried out by the contractor.

The CHAIRMAN: Who made that statement?

Mr. BALDWIN (*Deputy Minister*): The consultant made that statement. In the summer of the next year, however, we were in receipt of further reports about difficulties with the roof, and the region requested repair action from the

roofing subcontractor in accordance with the terms of his roofing bond. Now, the subcontractor at this time, and this is when it first came to our attention at headquarters, disclaimed responsibility, using the line of argument that I have indicated in my previous testimony. That is, that there had been conditions not covered by their bond, excessive traffic, storage of construction materials and relating to structural movement of the building during the final period of construction of the building after the roof had been completed. We did make certain temporary repairs but not of a sort that would void the bond. It was too late in the year to take any major remedial action because the winter season had developed, or the autumn season, which comes rather early in Gander. The following year, because of our concern over this, that is 1963, we hired a special roofing consultant to report on this whole matter to us and he made a report pointing out that there was entry of water through the roof installation as a result of openings in membranes and flashings and progressive damage to metalling and so on.

Our construction people made a summary report of this as soon as this material was obtained from the roofing consultant and then referred the matter to the law offices of our own branch. I do not believe we even went to the Department of Justice on this occasion because the law officers of our own branch, based on the evidence of the whole procedure that had taken place, did not feel, that while there might be some blame attributable to the contract, the Department was free from blame in this regard. Based upon my own personal investigation at the time I concurred in this view. I felt there had been inadequate supervision by the local engineer at that time. For this reason we did not take the matter further.

Mr. SOUTHAM: Did the contractor who was doing the constructing, provide a proper deck? I understand it was a flat roof, did he provide a proper deck surfaces to place this cold process roof on in the first place?

Mr. BALDWIN (*Deputy Minister*): I do not believe so.

Mr. SOUTHAM: I think this is where one of these niggers in the woodpile might be. You need a firm deck, usually good plywood or tight material, and in a cold process roof I believe some of them are 10, 15 or 20 year bond depending on the quality of the roof. This is a 20 year one and when you use a roof like that, if there is not a proper decking, for storage purposes, say moving crates and even rolls of roofing itself and bump it around you would end up with a poor roof or a leaky roof. Somebody is desperately at fault here.

Mr. BALDWIN (*Deputy Minister*): The other complicating feature, as I mentioned, was that we had to open the roof up ourselves for subsequent installation of certain meteorological and telecommunications equipment, and again, in the opinion of our advisers this somewhat weakened our case because it could be argued that this might be a contributing factor to some of the difficulties.

Mr. NOBLE: Mr. Chairman, I would like to ask Mr. Baldwin, when this damage was first brought to the attention of the contractor did this contractor agree to assume any of the responsibility for the restoration of the roof or putting it back in shape again?

Mr. BALDWIN (*Deputy Minister*): In accordance with the deficiency list that was provided to him at the time of the takeover, yes.

Mr. NOBLE: Another question I would like to ask you, Mr. Baldwin, was he paid fully for the amount of the time and everything that were spent on the roof. Did he allow anything off for his share of the responsibility?

Mr. BALDWIN (*Deputy Minister*): No, payment had been made by the time this matter came to a head in 1963, if my recollection is correct.

Mr. NOBLE: Well I mean the repairs. It cost you \$77,000 for repairs.

Mr. BALDWIN (*Deputy Minister*): Oh, well this was taken on directly by the department. The contractor was paid for all the work he performed in accordance with the contract, including up to the point of the handover document, including the list of deficiencies which he dealt with at that time and the consultants then cleared back to us. That was in 1961.

The CHAIRMAN: The local engineer would be a Department of Transport employee?

Mr. BALDWIN (*Deputy Minister*): Yes, sir. I do not think he is with us anymore. We are, unfortunately, suffering as many other departments are, a very serious shortage of engineers at the moment.

Mr. NOBLE: I have one more question. It seems to me there must have been real negligence when a building would be damaged to the extent of \$77,000 before anything was done about it. When they noticed something was happening why was not something done, perhaps a different method used for the storing of this material put on the roof and continually damaging the roof.

Mr. BALDWIN (*Deputy Minister*): Well, this came to light after that was out of the way, sir. That was the problem.

The CHAIRMAN: Why is the Department of Transport in the building business anyway. Why do we not get the Department of Public Works to build your building.

Mr. BALDWIN (*Deputy Minister*): I am not sure whether I am in a position to answer that question very effectively except to say that we do consider airport terminal buildings a rather specialized field of operation and from the point of view of the buildings I am not really ashamed of the results which have been achieved.

The CHAIRMAN: No; you have some fine airports across the country; that is for sure. But this is a different type of building, of course.

Mr. MUIR (*Lisgar*): Would you not consider this a little bit of negligence on the part of your resident engineer?

Mr. BALDWIN (*Deputy Minister*): Yes, sir.

Mr. MUIR (*Lisgar*): Well, I am going to throw one of Mr. Tardif's. Is he still working for you, or has he been promoted?

Mr. BALDWIN (*Deputy Minister*): At the present time if he were to apply to come back to us we would be strongly inclined to hire him, I think, because we are so desperately short of engineering staff, as are most other departments.

The CHAIRMAN: You would need to be pretty short to hire one like that.

Mr. MUIR (*Lisgar*): Might I suggest that if you do consider rehiring him that you assess him for part of this \$77,000.

The CHAIRMAN: Any other comments. I guess we add that one up to where the taxpayer pays. Next is paragraph 129.

129. *Cost of salvaging sunken vessel.* On March 5, 1964 a barge in tow with a cargo of oil sank in over 200 feet of water off Pasley Island in Howe Sound, B.C. Leaking oil fouled the beaches in the area. After the charterer had endeavoured to contain the pollution and clear the surface of the sea, he notified the Department of Transport that he was abandoning the vessel because the risk of rupturing the hull during any attempt at salvage and the cost of salvage were too great to contemplate.

The oil-laden barge remained a serious threat to water-fowl, marine life and coastal property and its removal was regarded as essential by the Department. As the wreck was not a menace to navigation, there was no legislation under which the private interests involved could be held responsible for its removal or for costs if removal were undertaken by the Crown. Accordingly, the Department engaged salvage experts to investigate and report on the best means of dealing with the sunken barge.

Salvage operations commenced in June 1964 under a "no cure, no pay" contract. After the contractor's costs had exceeded the contract price, with little progress having been made, he indicated that he wished to withdraw from the undertaking and minimize his losses. This led to Treasury Board authority to negotiate with the same contractor to proceed on an incurred cost basis.

In October 1964 the barge was finally raised and removed to Vancouver, where it was sold for \$12,752 by Crown Assets Disposal Corporation. The remaining oil was found to have been so badly contaminated by sea water that it was valueless. Salvage costs paid to the end of the year amounted to \$265,000. The total expense of the operation is expected to be at least \$430,000.

We understand that consideration is being given to recommending legislation to place financial responsibility on the owners for the removal of a wreck or its cargo, in circumstances such as the above.

Mr. HENDERSON: The barge in question here was being towed under charter from Anacortes, Washington to Port Mellon, British Columbia with a cargo of 9,000 barrels of bunker oil. After the Department had been informed of the abandonment of the vessel it learned that an inspection of April 3, 1964, had indicated that oil leakage was again taking place. The Department engaged a Vancouver firm of salvage experts to investigate and report on the best means of dealing with the sunken vessel. Their report indicated that pumping or burial was impractical and there appeared no alternative except to contract for salvage operation even though the risk of further spillage existed. A call for tenders resulted in entry into a "no cure, no pay" contract with salvage experts at a price of \$63,800. However, for the reason stated in the note here, this contract was cancelled and the contractor had to proceed on an incurred cost basis. The total cost of the operation has now reached \$435,000 and apparently may go as high as \$455,000. Mr. Chairman, I think it may interest the members to note that a private member's bill, C-202 from Mr. Basford, was introduced in the House on June 17, designed to place the responsibility for such expense in

future squarely on the owner of the barge or vessel involved. There seems to be merit to this because as matters stand there is apparently no one except the federal government to pay the bill in such cases.

The CHAIRMAN: According to the law the crown had to foot the bill. If there are no questions we will proceed to paragraph 130.

Mr. HENDERSON: It is interesting that Mr. Basford said in the explanatory notes that the Auditor General's Report for the year 1965 relates, and then he goes on to quote the circumstances of the note you are dealing with.

The CHAIRMAN: Gentlemen, when the private member's bill is before the House you will have an opportunity to speak on it.

Mr. HENDERSON: It might be proper to ask here if the Department of Transport is doing anything about this matter.

Mr. BALDWIN (*Deputy Minister*): In what sense did you mean, sir?

Mr. HENDERSON: Is there any legislation being developed by the department?

Mr. BALDWIN (*Deputy Minister*): This is up for recommendation for some statutory responsibility be established when next the Canada Shipping Act is up for amendment.

The CHAIRMAN: It has been fairly costly, as a whole, \$430,000 and may be—what did you say?

Mr. HENDERSON: Four hundred and fifty-five thousand when they get through.

The CHAIRMAN: Paragraph 130.

130. *Cost of abandoned design plans for ferry vessel.* In February 1964 the Department of Transport retained a firm of naval architects to prepare plans and specifications for an ice-strengthened railway car ferry to operate between North Sydney, N.S., and Port aux Basques, Nfld. A fixed fee of \$110,000 was agreed upon and the architects submitted a preliminary general arrangement plan and preliminary stability particulars.

Shortly after this date the Department informed the architects that the Canadian National Railways, which would be operating the vessel and had been consulted before the decision for an ice-strengthened ferry rather than one with full ice-breaking capacity had been made, were "quite emphatic that the vessel be designed for ice-breaking service and consequently the power will have to be revised to give an 18-knot service speed with diesel electric propulsion and ice-breaking qualities and scantlings".

After the architects had notified the Department that they were making revisions to meet the Railways' requirements, they were directed to suspend work while the issues involved were reconsidered. In April 1964 the Department decided that as the difference in the cost of building a full ice-breaker as distinct from an ice-strengthened vessel would be very great, its original decision should be confirmed. The architects were then instructed to proceed with the original proposal.

The architects requested a revision of the fee that had been agreed upon in February 1964 which was then re-set and agreed to at \$130,000, or \$20,000 more than the original fee.

Mr. HENDERSON: This note recites the facts behind a non-productive expenditure which amounted to \$20,000. The facts here are self-explanatory. I may say, however, that I have been concerned to note that when the request went forward from the department to the Treasury Board for authority to enter into agreement at the figure of \$130,000 information was not provided to the effect that the price was \$20,000 higher than had originally been planned or fixed.

It seems to me, Mr. Chairman, that the type of information given in this note should have been made available to the Treasury Board. Perhaps the members will consider that this is an item on which the Committee may wish to express a recommendation because I think the Treasury Board should surely be in possession of all the facts if they are to be expected to exercise their full judgment.

The CHAIRMAN: Any comments, Mr. Baldwin, or questions from members?

Mr. LEBLANC (*Laurier*): I would rather say that the naval architects made errors in planning and so on?

Mr. HENDERSON: Yes, I think such a recommendation—you could cite a number of the notes through here where the Treasury Board had not been as updated as fully as they should have been. I think they are intitled to have an absolute maximum of information.

Mr. MUIR (*Lisgar*): Are these the same architects that designed the boat that would not float?

Mr. HENDERSON: No; this was a different firm, Mr. Muir. We will come back to the other firm two notes later.

Mr. LEFEBVRE: There are only two qualified firms in Quebec.

Mr. BALDWIN (*Deputy Minister*): I have a query or comment if you will. The query was that I am not quite sure I have taken Mr. Henderson's point because the original fee of \$110,000 was approved by the Treasury Board, as I recollect, and we then submitted a revised fee of \$130,000, which also approved and as in almost all cases of this sort, there was a discussion between the Treasury Board staff and the departmental staff with regard to the circumstances that gave rise to this recommendation.

Mr. HENDERSON: I have the authority to enter into the contracts here in which the circumstances of this increase from \$110,000 to \$120,000 are not spelled out, so I wondered how Treasury Board would know. You might have told them verbally, I will agree.

Mr. BALDWIN (*Deputy Minister*): I would have to check on that but the form in most of these—

Mr. HENDERSON: The formal request signed by your minister to the Treasury Board does not disclose the fact that this is \$20,000 higher than it was intended to be.

Mr. BALDWIN (*Deputy Minister*): Well there was originally a submission for \$110,000, was there not? Am I wrong on that?

Mr. HENDERSON: This does not even indicate that.

Mr. BALDWIN (*Deputy Minister*): I thought there had been. I was almost certain that there had been and I know there were discussions between the treasury staff, sir;—this is the point you had raised,—and the department.

Mr. HENDERSON: I think it would help Treasury Board and the departments to, shall we say, curb some of this non-productive expenditure if the full picture, the total picture were available, were given to them.

The CHAIRMAN: All right, now paragraph 131.

131. *Purchase and conversion of ferry vessel.* On May 19, 1964 the Department of Transport recommended to the Treasury Board that approval be given for the immediate purchase of a ferry for the carriage of freight between North Sydney, N.S., and Port aux Basques, Nfld. The Department stated that, if an offer to purchase were made before May 25th, the vessel could be acquired at a very reasonable cost.

The vessel, a 432-foot railroad car ferry, built in 1951 by a Canadian shipyard for the Miami-Havana service, had been on the market for some time and, since 1961, a firm of ship brokers in New York had made four separate attempts to interest the Department of Transport in acquiring the vessel. No action was taken, however, because prior to 1964 departmental policy had been to acquire ships only by construction within Canada. In 1964 the Department decided that an urgent situation which had developed with regard to the movement of freight between North Sydney and Port aux Basques warranted a change of policy which would recognize that emergency circumstances might justify the acquisition of a vessel outside of Canada.

The purchase price was \$1,513,000 “free alongside” the port of Sorel and the Department advised the Treasury Board that it estimated that repairs and conversion would cost \$750,000, making a total outlay of \$2,263,000 to place the vessel in service. The Treasury Board approved the purchase on this basis on May 21, 1964.

Departmental records indicate that a Sorel shipyard had obtained an option on May 8, 1964 to purchase this vessel at Jacksonville, Florida, from its United States owners for a price of U.S. \$1,200,000. The option, good until May 25th, was duly exercised and the vessel was then sold to the Department of Transport on May 26, 1964 for \$1,513,000, pursuant to the authority given by the Treasury Board.

On July 6, 1964 the Department requested authority to enter into a further contract with the Sorel shipyard for conversion and refit of the vessel. It was estimated that this work would exceed the \$750,000 figure given to the Treasury Board on May 19th, the submission stating that the costs would total \$755,000, plus \$481,000 as a contingency to cover extra work arising from the opening up and modifications called for by the Canadian National Railways, the intended operators of the vessel. It was not proposed to invite competitive tenders because of the time factor which necessitated placing the vessel into service as quickly as possible.

The Treasury Board replied on July 29th that it would be prepared to authorize entry into a contract on a price to be negotiated basis on the understanding that a realistic target incentive contract would be submitted to the Board for approval after the vessel was opened up and specifications had been prepared.

It then developed that the work required exceeded all previous estimates and it was October 1964 before the Department negotiated a contract with the shipyard on the basis contemplated by the Treasury Board, setting the estimated conversion cost at \$1,844,000 with an incentive clause covering the division of savings on the target price.

Costs incurred under this contract for the conversion and refit of the vessel, which was accepted by the Department on May 1, 1965, amounted to \$2,447,000.

Mr. HENDERSON: This is a case of a freight ferry acquired by the department to service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland. This is quite an extensive note but the essence of it is contained at the top of page 84, really. You will see there that there had been four separate attempts made by shipbrokers in New York to interest the Department of Transport in acquiring this vessel. But no action was taken, for policy reasons. However, suddenly an urgent situation appears to have developed in 1964, and the Department obtained Treasury Board approval to purchase the vessel from a Sorel shipyard for \$1,513,000. We noted however, that two weeks prior to its purchase the same Sorel shipyard had obtained an option to purchase the vessel in Jacksonville, Florida for a price of \$1,200,000 in United States currency. The next step is self explanatory. The department paid \$1,500,000 Canadian for the vessel to the shipyard and the shipyard then obtained a contract for conversion and refitting the vessel, finally delivering it to the Department one year later. The total cost of the vessel has amounted to \$2,512,000.

Mr. McLEAN (*Charlotte*): Mr. Chairman, would there be any duty on that vessel, coming into Canada?

Mr. HENDERSON: I do not believe so but we might ask the Department.

Mr. STRANG: The ship was built in Canada. It was built at Canadian Vickers, Montreal.

Mr. BALLARD: Mr. Chairman, I am a little concerned about the proposal mentioned here. May 8 is the date the Sorel shipyard took the option and May 21 is the date the Treasury Board approved the purchase. I wonder if Mr. Henderson has the date on which application was made to the Treasury Board for this purchase. I wonder if he also has the date when it was first mooted that the government or the department would be interested in buying this particular boat.

Mr. HENDERSON: Would you have that date, Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): I do not have the actual submission to Treasury Board giving the date of the submission. My recollection is that it was early May.

Mr. HENDERSON: On May 19, the Minister of Transport wrote to the Secretary of the Treasury Board describing that this vessel, a 432 foot railroad car ferry, was built at Canadian Vickers in 1951, for the Miami-Havana service. It had been ascertained that provided an offer to purchase be made before May 25 this vessel could be acquired at a very reasonable cost. Purchase price including the cost of bringing it to a Canadian yard would be approximately \$1,500,000 and it is estimated that repairs and conversion would be \$750,000, making a total cost to place the vessel in service of \$2½ million. Of course, it has cost more than that. That is signed by the Minister and as you see the option had been obtained by the shipyard on May 8; it was good until May 25 and the Treasury Board approved this to the Department and they purchased it on May 26.

Mr. BALLARD: Mr. Chairman, I am a little concerned here. I suppose we cannot tie this down too closely, but it seems peculiar that the Sorel shipyard would have the almost uncanny foresight to take an option on this vessel just at the time that the Department of Transport decides that it needs to have a ship in a hurry, and take an option which gives them a quick profit of \$313,000. I am wondering if there was a leak from the Department of the need for just such a ship. This is the thing that I was trying to tie down a little closer by asking for dates.

The CHAIRMAN: Mr. Ballard, you might add one more sentence. Why would a repair company like the Sorel company be buying boats when they are in the repair business? Mr. Baldwin could you answer those questions?

Mr. BALDWIN (*Deputy Minister*): I will do my best. I do not think there was any leak in that sense of the word, Mr. Ballard, but the interest of the Department was known to quite a number of people outside the Department in this whole problem and in this particular ship. In fact the departmental concern over the problem of capacity on the ferry runs, for which there is a constitutional responsibility, both the Prince Edward Island and the Newfoundland service, goes back to two or three years before the date of this particular report, 1963-1964. Studies that we had made showed that we were heading into an extremely grave and serious problem with regard to both runs and an inability to handle the traffic.

The subsequent developments on both runs have in fact justified the correctness of those economic conclusions. It had not been possible for the government to take a decision to proceed with construction of a new vessel although these reports had been prepared, for a variety of reasons, including the general financial conditions which applied at the time, as I understand it. But the situation continued to deteriorate in terms of the lack of balance between available capacity and growing traffic.

It had always been, I may say, departmental policy to build its ships in Canada based upon our own design work and using Canadian shipyards. During the year previous to 1964, which is the year of the dates mentioned in this particular document, I believe, we were asked by the then minister to accelerate a fresh review of this situation to try and indicate what could be done to remedy it, and we proceeded with this review on the basis that we should construct a new vessel if possible. We made our studies. But early in 1964, the then minister of transport indicated that he considered the situation so grave

that he wished us to embark on a new course of action, namely, study of the possibilities by which we could get a ship on this run as quickly as possible, disregarding the previous policy which had been to design and build in Canada. In other words, the general question, where can you find a ship? Can you get one that can be modified? Could you do this by commercial charter? Should you buy one and put it on the CNR? The various possibilities were all studied intensively. We had embarked already on a preliminary review of this late in 1963 and they were studied intensively during the winter of 1963-64.

Since the *New Grand Haven* had in fact been drawn to the attention of the Department, I think probably almost as early as 1960 or 1961, as being available, this was a ship whose availability we knew of and were interested in because it had been built in Canada, which meant that its costs in Canada would be cheaper than if we had to pay duty on one which had been built outside the country.

Several parties knew of our interest. I think on our files, among the first two indications of bringing this to the attention of the Department were representations from a New York broker, I think it was, and also a representation from Marine Industries going back, in fact, to the beginning of 1963. We had also been approached by another commercial shipping group in Canada which had also talked about the possible availability of this same vessel, and was making certain plans on its own without any commitment from the government as to the basis upon which they might operate this ship under a contract to the government.

The Department was asked to review all these possibilities and report to the minister in the light of the change in policy that he had indicated we should follow; that is, namely, get a ship as quickly as you can, wherever you can that is suitable and get it into service at the earliest possible date. Our review, including discussions with the C.N.R. who have the primary responsibility for this, indicated, first of all, that the fastest method of getting a ship would be to buy the most suitable one second hand if we could find one outside the country; and a combined deal by which this could be done, including the renovation, was the fastest method of getting it into service.

Our discussions led us to recommend to the minister that we did not favour going to a commercial company and saying to them, "you find the ship and fix it up and we will hire it from you. We will charter you to operate along with the C.N.R." The C.N.R. felt basically that this should be under their fleet operation, as is now the case. It was the net result of these considerations which led us to recommend to the minister that we should seek to acquire this particular ship and make arrangements, if possible, in acquiring it to get it renovated and put into service. This was the fastest method of achieving his objective. Now, all I can say in that connection is that Marine Industries must have known, certainly knew of our interest in this vessel but so did quite a number of other people because we had been discussing this with other groups including another Canadian commercial shipping company and with the brokers as well. There was quite a general knowledge within the trade that we were, unlike previous policy, looking around for a second hand vessel and that this particular ship was among the possibilities.

The CHAIRMAN: Mr. Baldwin, knowing this situation, why did you not get out right smartly and protect yourself and take an option on the boat before somebody else beat you to the draw?

Mr. BALDWIN (*Deputy Minister*): We put this to the minister and he put it to the Treasury Board as promptly as we could, once we felt we were in a position to recommend the course of action we should take.

The CHAIRMAN: Well, this course of action cost the taxpayer \$313,000.

Mr. BALDWIN (*Deputy Minister*): Well part of those costs—I have the breakdown here—were charges which would have been incurred in any case in connection with the towing, the insurance and the preparation of the vessel for towing and crew wages, and so on. The profit element as we figure it comes out at around \$130,000.

The CHAIRMAN: Do you mean it would cost the difference between \$313,000 and the figure that you quoted to bring that ship from the United States?

Mr. BALDWIN (*Deputy Minister*): The towing charges alone were \$35,000.

The CHAIRMAN: It cost \$35,000 to tow it?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. LEFEBVRE: How did you figure out this \$313,000?

The CHAIRMAN: Well, Mr. Lefebvre the purchase price that the boat company at Sorel paid was \$1,513,000 but the Department of Transport could have bought the boat for \$1,200,000 and they had been given four opportunities to buy it since 1961.

Mr. LEFEBVRE: Yes, I see. But we did have an option on that boat, did we not, if we made the purchase before May 25?

Mr. MUIR (*Lisgar*): No, that was the middleman.

The CHAIRMAN: Mr. Ballard have you finished your questioning?

Mr. BALLARD: No. I have asked only one of them. The other question was, has Mr. Baldwin a letter or some indication of the date on which the minister changed the attitude of the government toward buying a second hand ship?

Mr. BALDWIN (*Deputy Minister*): Roughly in the early months of 1964, sir.

Mr. BALLARD: Well, how early?

Mr. BALDWIN (*Deputy Minister*): I would think it was in February. I am speaking from recollection now.

Mr. BALLARD: I am at a loss, Mr. Chairman—to emphasize the point you made—I am at a loss to understand why the government, who knew of this boat and were probably aware that they were going to settle on this particular boat, because they had looked at it previously, did not at that time go out and secure an option on it for themselves. It was taken over by some other private entrepreneur, resulting in an extra cost to the government. I am not satisfied that the proper procedure was followed.

The CHAIRMAN: Mr. Baldwin, can you enlighten us. I think the feeling of the committee is general. Mr. McLEAN (*Charlotte*): May I ask, did they have to pay for that option?

Mr. BALDWIN (*Deputy Minister*): I would assume so, sir.

Mr. McLEAN (*Charlotte*): The government then, if they took an option, would have to pay for the option?

Mr. BALDWIN (*Deputy Minister*): This is corect, sir.

Mr. LEFEBVRE: How much would that amount to?

Mr. HENDERSON: Mr. Chairman, I have here a copy of the option letter by the Florida owner to the Sorel shipyards, dated May 8, reciting the terms but we can find no dollar consideration paragraph in it.

The CHAIRMAN: They apparently got an option for nothing.

Mr. McLEAN (*Charlotte*): One other question, Mr. Chairman. Was this option given in United States funds or—

Mr. HENDERSON: Yes, it is United states funds, \$1,200,000. "This option shall be good and effective until noon on Monday May 25, \$1,200,000 United States currency payable in cash at time of delivery of the vessel with transfer of title."

Mr. BALLARD: Then, the figure that you give of \$1,313,000 was in Canadian funds?

Mr. HENDERSON: Yes, that is right you have to adjust it to that. The department paid \$1,513,000 Canadian but the Florida owner gave this option on May 8, good until May 25, for \$1,200,000.

Mr. MUIR (*Lisgar*): Mr. Chairman, I was just wondering if the department was aware of the fact that the option was only good until May 25?

Mr. BALDWIN (*Deputy Minister*): Yes, but we were also aware that other people were looking for options as well, and we understood that certain other commitments had been given, and we were also aware of the fact that the other commercial company concerned was equally wondering what to do, it seems. I cannot offer any official level explanation or comment with regard to the practice of a private company in this respect but I suspect there were a number of people manoeuvring to get an option on this ship and we understand that both Californian and Mexican interests were involved as well. At any rate, the decision was taken on the basis that it was not unreasonable, in our report to the Minister. The recommendation was that we should proceed to acquire this vessel when it became apparent that the Sorel yard had an option; it was our opinion that the element of profit which was \$130,000 in relation to the total cost was not out of line with what might be expected in such conditions.

Mr. MUIR (*Lisgar*): Mr. Chairman, this is my point of concern. I am not too concerned if the government did not buy the boat in the first place, but I am concerned with the fact that a Canadian citizen or any other citizen could make himself \$130,000 in 18 days, and I think that when the department knew this if would have been better to forgo the thing. We were getting along, although probably it was tough getting along. But to hand anybody \$130,000, when he has had an option that is going to last him for 18 days is something that should not happen in the kind of government we have in this country. Was he a friend of somebody or not? I do not know. That is beside the point. If another company had got the option it would not have made a bit of difference, but as

long as these kinds of things are allowed to go on we can expect the taxpayer to have a hell of a good beef, because he has got one in a case of this kind.

Mr. BALLARD: Mr. Chairman, I think this Committee should register its extreme displeasure with this transaction in our report to the House of Commons.

The CHAIRMAN: All right. Mr. Baldwin, did you recommend to the minister that this transaction take place?

Mr. BALDWIN (*Deputy Minister*): Yes; in the light of his direction it was the fastest method of achieving his objective of getting a ship into service which was the prime requirement laid down.

The CHAIRMAN: And you turn around and recommend that we pay that company \$750,000 to repair it?

Mr. BALDWIN (*Deputy Minister*): This is part of the general pattern of speed in respect of getting the ship into service, sir. If time had not been an element, then it would have been easier to prepare specifications and call for tender.

The CHAIRMAN: Well, I do not think the Committee can accept this time factor altogether. We were not in that big a sweat to waste \$130,000 of the taxpayers' money. I do not think we are in that big a hurry. As one of the members have said, we have extreme displeasure with this transaction all the way through. The word "policy" comes into this quite often and I think we should dwell on that a little more.

Mr. BALDWIN: Mr. Chairman, I understood Mr. Baldwin to say that his recommendation was made in the light of direction from the minister to find the fastest way to place a vessel in service. I assume that the minister would have before him that time, knowledge that this was one of the methods by which a vessel could be obtained? Now, the next question I was going to ask was, has the department records which would indicate the amount of freight carried before the vessel was put into service and afterwards? Did the facts, after the vessel was put into service, if it has been put into service, indicate that there was this real urgency to put a vessel into service for the purpose of meeting the requirements of the traffic situation?

Mr. BALDWIN (*Deputy Minister*): The Chairman of the Maritime Commission, Mr. Chairman, might answer that if he will.

Mr. DARLING: Mr. Chairman, I would simply say that the ship has been in service now, for two years, it has been a very effective help on the service. It is loading containers, much of the *William Carson*. The savings in loading costs, on this ship are roughly \$8 per ton compared with what we would have otherwise to pay on conventional ships loading through the hatch, where the cost might run up to double or more than this. We have since acquired another vessel and these ships will not be adequate this year to handle the traffic that is going there.

Mr. BALDWIN: One more question; in surveying the various possibilities which were outlined, what would have been the cost of obtaining a new vessel and what was the length of time which would have been needed to put it into service?

Mr. BALDWIN (*Deputy Minister*): The total cost to the Treasury of this vessel was just under \$5 million? Is that right, Mr. Henderson?

Mr. HENDERSON: No.

Mr. BALDWIN (*Deputy Minister*): Oh, \$2 million, I am sorry I was thinking of the other. The equivalent cost would have been about \$10 million for a new ship. To design and build would have taken a period of at the minimum, three years and possibly four, in the light of the conditions which have developed since in the yards.

The CHAIRMAN: In view of the fact that the Sorel shipyard company made \$130,000 profit in a period of a few days, why would you not call for tenders to refit this ship from some other source, rather than to turn around and give them the business to refit it after they had soaked you \$130,000, or at least made a profit to that extent?

Mr. BALDWIN (*Deputy Minister*): It was primarily a question of time, sir.

The CHAIRMAN: And you did not call for tenders?

Mr. BALDWIN (*Deputy Minister*): No.

The CHAIRMAN: Is it a customary practice of your department not to call for tenders?

Mr. BALDWIN (*Deputy Minister*): No, but it may be the case where time is an essential element.

The CHAIRMAN: Well, we come back to this business of time again.

Mr. SCHREYER: Mr. Chairman, I would like to ask Mr. Baldwin what sort of facility had been in existence previous to the acquisition of this vessel?

Mr. BALDWIN (*Deputy Minister*): At Sydney-Port aux Basques?

Mr. SCHREYER: Yes.

Mr. BALDWIN (*Deputy Minister*): Only one new ferry, the *William Carson* and a number of older chartered vessels which CNR was using which basically were not only unable to handle the traffic but were uneconomic in their method of operation because they were not built for the service.

The CHAIRMAN: Is the *Carson* the boat that your department bought and then it did not fit the wharves and we had all the trouble about landings and one thing and another?

Mr. BALDWIN (*Deputy Minister*): Yes, that we built sir.

The CHAIRMAN: And it did not match the wharves and there was no end of trouble?

Mr. BALDWIN (*Deputy Minister*): This was prior to my time in the department but I have about an incident of that kind, yes.

The CHAIRMAN: Any more questions?

Mr. McLEAN (*Charlotte*): Mr. Chairman, when the department got around to buy the boat the Sorel people had the option?

Mr. BALDWIN (*Deputy Minister*): This is correct.

Mr. McLEAN (*Charlotte*): You could not do anything about it then? The government could not take an option when they had the option. I presume they had a chance to renew the option. I could not see that there was much you could do then except go ahead. They had the option on the boat and you very seldom take an option unless you take a renewal, so they had you tied up. You had to take them anyway, did you not?

Mr. BALDWIN (*Deputy Minister*): Well, this was the decision that was taken sir.

Mr. MUIR (*Lisgar*): Would this be the only type of vessel like that in existence?

Mr. BALDWIN (*Deputy Minister*): It was, I think, closest to what we needed and it had the advantage that it was built in Canada, which meant quite a considerable price differential. We have since that time, in accordance with this new policy, gone on the market, again on grounds of urgency, to require another ferry for modification outside the country, but it cost us rather more when we did that.

Mr. McLEAN (*Charlotte*): This was available, I presume, on account of the Havana-Miami run?

Mr. BALDWIN (*Deputy Minister*): This is correct.

Mr. HENDERSON: It is interesting, Mr. Chairman, to note that when the first offers were made to the department in May 1961 a shipbroker in New York solicited their interest. On January 26, 1962, they again solicited their interest. They mentioned the owners' ideas for selling had been in the neighbourhood of \$2 million and January 30, 1963 the broker said again the owners were anxious to sell and were prepared to be very reasonable in price. On the same date the broker also wrote to the Sorel shipyard to the same effect apparently and referred to previous mention of the ship and suggested trying any offer over a million dollars. So, they apparently had been working very hard at interesting us up here in buying back this Canadian ship. Also, that Mr. Baldwin, as he explained in his testimony, has been very active in following this matter through right from mid-July 1963.

The CHAIRMAN: Mr. Baldwin, when you realized that you had lost the option and that the Sorel shipyard company had the option, did you contact this New York ship agency to see if they had any other boats for sale?

Mr. BALDWIN (*Deputy Minister*): No, sir. To the best of our knowledge from a previous review, this was the only one that was readily available.

The CHAIRMAN: Do you not think it would have been good business to have approached that agency and asked them if they had any other boats on the market?

Mr. BALDWIN (*Deputy Minister*): Sir, we get regular circulars, and we know what is on the market, from most of the brokers.

The CHAIRMAN: Paragraph 132.

132. *Cost of faulty planning in ferry design.* In September 1963 the Department of Transport entered into a contract with a firm of naval architects for the preparation of plans and specifications for an ice-

breaking railway and automobile ferry for operation in the Northumberland Strait and Newfoundland service at a fixed fee of \$156,000.

Six months later it became evident that allowance would have to be made for rail car weights considerably in excess of those contemplated in the original planning if the vessel was to be properly stabilized. When this decision was communicated to them, the architects placed a value of \$102,000 on the work they had already done. They estimated that they would be able to use work to the value of \$47,000 in the revised planning and that the balance of \$55,000 represented the cost of the planning work to be abandoned. They were reimbursed in full by the Department.

In considering the Department's report on the circumstances of this case, the Treasury Board pointed out that the need for the design changes might have been avoided had departmental engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design. The Board pointed out that it would seem improbable that the planning and implementation of modifications to the design and construction of the freight cars took place entirely between August 1963, when the basic plans for the new ferry were developed for the Department, and February 1964 when the new weight data was provided to the Department by the C.N.R.

The Treasury Board directed that procedures be developed for the verification of basic data to avoid similar situations in future.

We are still with the ferries.

Mr. HENDERSON: This non-productive expense involved a firm of naval architects who I might say were the principals in the case you have already discussed in paragraph 85 of my 1964 report. The circumstances here are very involved. It will be seen that in September, 1963, Treasury Board approved a contract with the firm at a fixed fee of \$156,000, plus reimbursement for certain types of expenses. Six months later it was evident that changes would have to be made in the plans to allow for rail car weights in excess of those originally contemplated and this would have to be done if the vessel was to be properly stabilized. This involved the architects additional work which cost an extra \$55,000.

The CHAIRMAN: Mr. Baldwin have you any explanations?

Mr. BALDWIN (*Deputy Minister*): No, I think the Auditor General's comment was quite fair and accurate. In fact, sir, this was a case of the old adage that you should never take anything for granted. I think there was too much in the way of assumption of knowledge on each side, both departmental people who were working on design and the CNR who were to be the users of the ship, each with regard to what the other knew. CNR assumed we knew enough about the newest types of railway cars to take them into consideration. Our people assumed that CNR wanted to use different types of cars or would have let us know and they were both at fault.

Mr. LEFEBVRE: The CNR seems to be involved, Mr. Chairman, in quite a few of these extra costs to vessels and ferries. I was just wondering if there was some new way that the department headed by Mr. Baldwin could not work in closer liaison with the CNR

Mr. BALDWIN (*Deputy Minister*): We do our best, sir. The problem with regard to the ferry operations, Sydney, Port aux Basques and P.E.I. is a very difficult one because of the basic set-up that exists with which I am sure you are familiar. Actually these are not normal commercial operations. These are constitutional obligations on the part of the federal government. The C.N.R. was designated as the agency to operate these services but the federal government underwrites the cost. Now this is not the easiest psychological or philosophical context in which to work, if I may put it that way.

Mr. LEFEBVRE: In other words, the CNR operates the vessels once they are ready?

Mr. BALDWIN (*Deputy Minister*): Yes, and of course has a large amount to say as to what they thing it necessary to keep track of the traffic. We have to underwrite the deficit, or at least, the federal government has to underwrite the deficit.

Mr. LEFEBVRE: I understand this, sir, but would not the CNR be in a better position to contact the naval architects when they need a vessel, seeing that they are the ones who know what they need?

Mr. BALDWIN (*Deputy Minister*): This was how the difficulty arose with item 130 which was dealt with previously in respect of the design of the ice strengthened ferry. It was the CNR that went direct to the architects and said, "we should change this design to a fully ice strengthened ferry", and the architects and we having set up direct liaison tried to please them and we later said, "you should not have done this because we do not think the extra \$5 million in capital cost is justified." We have a liaison arranged but in this particular case the liaison did not work as it should have in the sense that on two sides, the CNR and the department, each assumed the other would tell them certain things and neither did. They should not have taken this for granted.

Mr. LEFEBVRE: But, sir, in your own opinion would it not be better if the CNR dealt directly with these people rather than go through your own department?

Mr. BALDWIN (*Deputy Minister*): Then we are in effect giving the CNR a free hand and we have to underwrite the cost of this, and we think we should have some control over it, sir, to the extent that it is possible.

Mr. LEFEBVRE: Maybe we could try one and see what happens?

The CHAIRMAN: Mr. Strang, I would like to direct this part of the Auditor General's remarks to you where he says:

—Treasury Board pointed out that the need for the design changes might have been avoided had departmental engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design.

Now, the men in your department, your departmental engineers, did not take precautions according to this?

Mr. STRANG: Well, sir, this is a peculiar incident, as a matter of fact, because this large car weight of 220,000 pounds—I might say the average rail car is 141,000 pounds loaded. These 220,000 pound cars are for carrying roadbed material from the mainland to Prince Edward Island. Apparently it is in short

supply there. After the design had got well under way they came and advised us that they needed these larger cars which were of a new design in fact, to be carried over to the island loaded with granite chips which, of course, brings the weight up to 220,000 pounds.

The CHAIRMAN: By "they" you mean the CNR?

Mr. STRANG: Yes.

Mr. SCHREYER: Mr. Chairman, I would like to ask how much work of this kind was engaged in by your engineers. It is not as though they had many work orders of this kind. This was probably one such in the course of several years. So in the light of that, and if this is so, would it not be normal practice to check with the CNR people first?

Mr. DARLING: The specifications of the special type of freight car which Canadian National were using, I do not think we would normally assume it had been required. I am not quite sure I get Mr. Schreyer's point.

The CHAIRMAN: I think Mr. Schreyer's question is: If you are going to build a ferry surely to goodness you knew what you were going to carry on the ferry before you had it built. Now did you or did you not know what you were going to carry on the ferry?

Mr. DARLING: At the outset, Mr. Chairman, we did.

The CHAIRMAN: You knew what you were going to carry?

Mr. DARLING: And then, of course, the amendment came along for the larger cars, the heavier cars, you see.

The CHAIRMAN: Well, then the point is why do you not find out what you are going to carry, the size of the cars or what is going to be in the cars or any other thing you are going to put on a ferry before you start to build it?

Mr. STRANG: Yes, sir; but the requirements came from the Canadian National after we had their initial requirements. They amended their requirements which, of course, increased the size and weight of the cars.

The CHAIRMAN: Well, why do you not ask the CNR now, "Are you sure this is what you want to do"?

Mr. BALDWIN (*Deputy Minister*): Sometimes we may omit doing this but we do this quite frequently, sir, and still they change their minds.

The CHAIRMAN: Well, I will tell you if you were spending your own money you would darn well do it. This is putting it pretty bluntly. We are here to protect the taxpayer of Canada, and the way their money is spent. You are the fellows who are spending it, and this committee of public accounts is here to protect the taxpayer of Canada: we are just getting so many of these cases that every once in a while I have got to let off steam. This is one place where I think you people certainly were at fault, in that you did not find out what you were going to carry on this thing and the type of cars, the length of cars, what you are going to put into the cars and everything else before you spent one red cent. But between you and CN you did not do it and you cost the taxpayer of Canada, what was it, \$55,000? Now, if you have any defence we want to hear it?

Mr. SCHREYER: Mr. Chairman, I would like to have one point confirmed on this. Did I understand Mr. Strang to say that the CNR changed the freight car dimensions after the specifications were laid out by your engineers but they did not communicate this information?

Mr. DARLING: Well, then they did but, of course, the design was well on to the extent that it had to be scrapped and we had to add eight feet to the beam of the ship.

The CHAIRMAN: All of which you would not have had to do if you had known this to start with.

Mr. DARLING: No, sir, but I do not think the CN knew at the start.

The CHAIRMAN: Well, then you had no business to start to build a ferry if you do not know what you are going to do.

Mr. LEFEBVRE: I think we should have the CN officials here also if we want to get to the bottom of this thing.

The CHAIRMAN: Well, this is passing the buck at this stage. Is there any further defence on this one?

Mr. McLEAN (*Charlotte*): Well, Mr. Chairman, I do not see that this is so bad. They ask the CNR what kind of car they want and weight and so forth and the CNR tells them, and they go to work to build the boat, and then the CNR comes back and says, "no, we want a different kind of car and we want to load it heavier." Well, they have to change the design. I think that if that is the case, then the CNR are the ones responsible.

The CHAIRMAN: Well, I would agree with you. Maybe we should have the CNR people here.

Mr. MUIR (*Lisgar*): Mr. Chairman, in a case of this kind perhaps it is all right, but sitting on a public accounts committee we run into this kind of thing day after day, after day, until you get it up to the neck, and there is always an explanation for it. There is always an explanation but it is recurring so often that the explanations begin to sound like a phonograph record.

The CHAIRMAN: Well, any more? It is almost half past five. I did not realize the time, gentlemen and we want to finish. Paragraph 133.

133. *Cost of changing vessel design.* In May 1963 the Department of Transport entered into a contract at a fixed fee of \$86,000 with a firm of naval architects for the preparation and supply of plans and specifications for the construction of an icebreaker supply and buoy vessel, estimated to cost \$8,800,000, for operation in the Gulf of St. Lawrence.

Following submission of preliminary drawings by the architects, the Department requested that the accommodation requirements be increased from 71 to 91 as the result of the development of a new rating structure for vessels, leading to a revised crew complement. An additional factor was that experience in the north, where it was decided that this ship would have to be used during the summer, was increasingly pointing to the need for extra berth capacity in connection with the type of work involved in northern operations.

In September 1963 the architects advised that the vessel would have to be increased in length to provide for these and other lesser changes and that "all the work we have executed since February becomes null and void and we request your concurrence that a fresh start of the design is warranted".

This concurrence was given in July 1964 and an additional payment of \$20,000 was made to the architects.

Entry into a contract for the building of the ship was approved by the Treasury Board in September 1965.

Mr. HENDERSON: This is another non-productive expense of \$20,000 paid to the same firm of naval architects as in the previous case. This is a situation where the departmental request to the Treasury Board appears to me to have failed to contain the complete story. Although in this case the Treasury Board did request and then was provided with additional information, I say to you again that I think it points up the desirability of recommending that full and complete information be given to the Treasury Board in the first place.

The CHAIRMAN: Any questions? Paragraph 134.

134. *Cost of altering vessel design plans.* In May 1963 a firm of naval architects was retained by the Department of Transport at a fixed fee of \$42,000 to prepare plans and specifications for the construction of an icebreaker supply and buoy vessel for service on the Great Lakes.

In September the architects delivered their preliminary plans and specifications prepared in accordance with departmental requirements and guidance plans supplied. In November the Department advised the architects that the design was to be modified for service in the St. Lawrence River and the Gulf of St. Lawrence and also to provide Arctic supply capabilities.

In August 1964, after the architects had completed their engagement, they were paid \$15,000, additional to the fixed fee of \$42,000, for the extra work in preparing the new design.

The award of a contract for construction of the vessel at a price of \$5,267,000 was announced in April 1965.

Mr. HENDERSON: The firm of naval architects in this case—

The CHAIRMAN: Is it the same firm?

Mr. HENDERSON: This is the other firm, not the one that we educated, no. It will be seen here that several months after the architects delivered their preliminary plans and specifications, prepared in accordance with departmental requirements, the department informed them the design would have to be modified because of a change to be made in the use of the ship. It was this modification which cost the additional \$15,000.

The CHAIRMAN: This is a change in the design of the ship made after the architects were called on the job. I suppose there was a reason you had to change the design Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): Well, the comment would apply equally to these two items, sir, and that is, that the normal period between your first concept of a ship and the time it is delivered to you can run anywhere from

four to five years, maybe three and a half if it is a very small one. And if in addition you are trying to do some advance shelf-planning or if you run into a period of financial stringency in estimates, there may be a further delay between the time you have done the design and the time you have funds to go to contract. It is not abnormal in such circumstances to find that changing technical or other requirements merit some change in the design of the ship. Now, the great difficulty or the problem of management decision in such cases is you are abusing the taxpayers' interests if you make so many changes that this becomes a completely extravagant purpose. You are, on the other hand, I think protecting them if you make lesser changes that obviously increase the efficiency of the ship with regard to the job or the changes in technical requirements that have developed during this rather lengthy period since its initial concept. In both these cases we think that the cost involved was more than merited by the additional serviceability or value that we get out of the ship concerned and in the light of the technical changes that took place during the five year period.

The CHAIRMAN: All right paragraph 135.

135. *Cost of "dead-freight"*. The Department of Transport conducts an annual Arctic re-supply operation which includes the making of arrangements for transportation, stevedoring and other shipping services for other government departments and agencies on a recoverable basis. In April 1964 the Department called for tenders for the carriage of specified tonnages of cargo from Montreal to northern ports with the proposed loading dates scheduled for July 1964. The offer that was accepted quoted rates based upon "the minimum figures as shown in the request for tenders".

When the goods were loaded at the scheduled sailing time in Montreal, it was apparent that the total cargo was about 1,115 tons, or 21.5% less than what had been originally contemplated, or which 990 tons represented a short-shipment by the Department of Northern Affairs and National Resources. The total shortage represented a "dead-freight" charge of \$67,000, a figure which was ultimately reduced to \$44,000 through concessions made by the shipping company. Of this latter amount \$33,000 was charged to a Department of Transport appropriation in the current year and the balance to the following year.

Mr. HENDERSON: This note describes what took place in 1964 when the department conducted its annual Arctic re-supply operation. There were 1115 tons, or 21.5 per cent less cargo than had been contemplated and this cost \$67,000 in dead freight. However, the shipping company made a concession and reduced this to \$44,000, as you will see, of which \$33,000 was charged to the Department of Transport appropriation in the current year and the balance in the following year. This was done despite the fact that 990 of the 1115 tons represented a short shipment by another department, namely the Department of Northern Affairs and National Resources. When it approved this payment to the shipping company the Treasury Board said it did not wish to specifically direct the departments responsible for this charge to make restitution from their own appropriations. Instead, the ministers felt it would be more appropriate if officials of the Department of Transport took the matter up with Northern

Affairs, whom they understood to be the major offender, and arrived at some arrangement satisfactory to both parties' interests. I have to say to the Committee that we made inquiries in both the Department of Transport and the Department of Northern Affairs to see whether the latter has been approached in accordance with this suggestion. However, thus far, there is no indication that any such approach was made. I think this should have been undertaken not only to put the cost where it belongs but to serve as an incentive to the department responsible to avoid such poor planning in the future. I would suggest to the Committee that, subject to what Mr. Baldwin has to tell us today, the Committee might care to endorse this as a recommendation. It is a question of putting the proper charges in the right place so as to get accurate costs.

Mr. LEBLANC (*Laurier*): Can we have the Minister of the Department of Northern Affairs as a witness in that case to see what they think about it.

Mr. HENDERSON: Indeed, you could, Mr. Leblanc, but perhaps Mr. Baldwin could tell us whether there have in fact been any talks with the Department of Northern Affairs about this because the initiative would have to come from his department?

Mr. MCLEAN (*Charlotte*): Mr. Henderson, it is cost which you are after but I would like to know about this 990 tons. Was that food for the Eskimos that they did not deliver, or what?

Mr. BALDWIN (*Deputy Minister*): This is part of the problem, or part of the planning of what we call the northern supply, the Arctic supply mission, in the summer, which we undertake for all departments of government and for the United States department of national defence. This is what I suppose you would call an integrated shipping program that handles the goods of a great many different groups, departments of government, the United States department of defence and so on, and takes them to many destinations. It requires a lot of complicated planning. In order to carry this out we have to have a pretty good estimate from other departments of government well in advance as to what space they require, what goods they are going to move and where it is going. The problem in this particular case was that the estimate given by northern affairs turned out to be much larger than the amount of cargo they then gave us to move on their behalf. This left us under an obligation to the shipping company because we booked the space.

The CHAIRMAN: I believe the question is how could they be out 990 tons?

Mr. BALDWIN (*Deputy Minister*): This I could not answer; this they would have to answer. I can answer Mr. Henderson's query about the position of why the funds were handled in this fashion and the position vis à vis northern affairs. I can assure him that we have on several occasions been as forceful as we can in drawing to the attention, in discussion with northern affairs, the importance of being accurate in carrying out their cargo estimates to us and living up to them. We were not sure what the intent of the Treasury Board decision referred to by Mr. Henderson was in fact and we therefore discussed it with treasury staff subsequently and found that they really wanted this to be handled in the most convenient form from the point of view of estimates. Northern affairs would have had to go for a supplementary. It was a revenue

entering item on our part or a bookkeeping item on our part and therefore it was carried in our vote instead.

Mr. McLEAN (*Charlotte*): The space for 990 tons was not used?

Mr. BALDWIN (*Deputy Minister*): That is correct.

Mr. McLEAN (*Charlotte*): You would not have any of this other then?

The CHAIRMAN: If time permits, Mr. McLean, we should have an official from the Department of Northern Affairs here to answer your question and also the CNR people here to answer on this ferry business.

Mr. LEFEBVRE: Are we meeting again on Thursday, Mr. Chairman?

The CHAIRMAN: We felt not this week. We will have a rest period on Thursday just in case the House should adjourn. We are not sure.

Mr. LEFEBVRE: Well, if the House does not adjourn at our next meeting, could we have these gentlemen back with the CNR officials.

The CHAIRMAN: On Tuesday, do you see anything wrong with that Mr. Henderson? The following Tuesday, the CNR and northern affairs to clean up these two and we will want you people here at the same time.

Mr. HENDERSON: I would just like to mention in response to what Mr. Baldwin said that the Treasury Board officials came around and altered the decision of the Treasury Board. I have the Treasury Board letter here, dated April 13, to Mr. Baldwin, commenting on this, and one of the bases on which the board is prepared to approve the payment to the shipping company, adds:

However, the Board did not wish to specifically direct those departments responsible for this charge to make restitution. Instead the ministers felt that it would be more appropriate if your officials took the matter up with northern affairs which is understood to be the major offender and arrive at some arrangement satisfactory to both parties' interests.

It seems to me that is a direction from the ministers of the Treasury Board to you to contact the Department of Northern Affairs and not to alter it in some discussion with the Treasury Board staff. Would I not be correct in that?

Mr. BALDWIN (*Deputy Minister*): We did contact them, sir. We had contacted them previous to this year. This is part of the general process of cargo handling in which there is a meeting of the departments concerned to review their requirements. This is not a new problem, and this was not the first occasion on which we have had to draw, in the course of direct discussions with the department during the course of the meeting, to the attention of this department and some other departments, the great difficulties that are caused when the department gives us an inaccurate forecast.

The CHAIRMAN: And this one inaccurate forecast cost the taxpayers \$67,000.

Mr. BALDWIN (*Deputy Minister*): We were able to get it down to that figure; it could have been a claim for more.

Mr. HENDERSON: The company shouldered a little bit of it, Mr. Chairman. It cost the department \$44,000.

The CHAIRMAN: The sum of \$44,000 is the net cost to the taxpayer?

Mr. HENDERSON: We now have—

The CHAIRMAN: Let us stay on 136 and 137.

Mr. HENDERSON: There are only two more.

136. *Subsidizing of intra-provincial ferry service.* Since 1906 the operation of a ferry service between Pelee Island and Ontario mainland ports has been subsidized solely by the federal Government. The present vessel, specifically designed for this service, was built by the Department of Transport at a cost of \$567,000 and delivered in 1960 to the operating company under a charter hire agreement.

On a number of occasions in recent yeears the Treasury Board has expressed approval of a policy of regarding subsidy assistance to ferry vessels, which are essentially links in provincial highway systems, as primarily a provincial responsibility. In accordance with this policy, the Government of Ontario was approached early in 1964 to ascertain the amount of assistance that it would be prepared to provide in sharing the amount of subsidy required to maintain the Pelee Island service. The Province declined to contribute on the grounds that its Highway Improvement Act only permits payment of a subsidy to a municipality which in turn is paying for a portion of the cost of operating a ferry service, and in this instance no municipality was involved. The attitude of the federal Government is that if the provincial Government is not prepared to seek some measure of municipal responsibility there would seem to be no valid reason why the Province should not enact legislation to directly assist the service if it feels that it is important to the economy of the area it serves.

In approving a subsidy of \$79,000 for the year 1964-65 (from which was recovered the charter hire fee of \$51,000 for the year) the Treasury Board advised the Canadian Maritime Commission in November 1964 "that a significant provincial contribution must be obtained next year as continuation of federal subsidization at the present level will definitely not be approved under any circumstances". Although the Commission again approached the provincial Government in January 1965, informing it of the stand taken by the Treasury Board, the Province again declined to contribute to the subsidy.

In the circumstances the Treasury Board reversed its earlier stand and authorized the inclusion of a subsidy provision of the same amount in the Estimates for 1965-66. Interim supply has permitted the payment of \$39,000, representing one-half of the subsidy.

Paragraph 136 contains particulars concerning the manner in which the federal government is subsidizing what is regarded as an intra-provincial ferry service between two points in Canada within the same province, primarily a roll-on roll-off road link which as such is generally regarded as being eligible for provincial government support. Despite the Treasury Board's advice to the Canadian Maritime Commission in November, 1964 that the continuation of this subsidization at the present level would definitely not be approved under any circumstances, provision for the subsidy was again made in the estimates for

1965-66. No doubt Mr. Darling might care to comment on this. There is just one little statement I would like to make first. I had a telephone call from Mr. Whelan, the member for Essex South on February 3. He has been a member of this Committee in 1964 and he told me that this ferry, the Pelee Island ferry, which I think is the one involved here, is really an international one because it runs to Sandusky in Ohio. Consequently, he said he thought it was a federal responsibility under the terms of the British North America Act. I invited him on that date to come to the Committee when the item was discussed but I do not see him here this afternoon Mr. Chairman. I am not too clear on that myself but perhaps Mr. Darling could elaborate on that point.

Mr. DARLING: Well, Mr. Chairman, I think I can point out here that there is a policy developed by the Treasury Board which the Maritime Commission had assisted in drawing up in which it concurs that these ferry services should be more or less classified according to their functions. We have inherited a great many ferry services and they are of all types; their nature is changing. Some are disappearing and others are reappearing, but it is out of the question that we suddenly as of a certain date proclaim a new policy. This is neither possible nor practicable. We have been subsidizing the Pelee Island service since 1906 and in 1961 a new vessel was put on. The general approach has been that where there has been an occasion for making the change, where there is a demand for a larger vessel, or a different type of vessel, or for some reason the vessel using the service is discontinued, then we try to bring the policy into line. It is a very difficult job actually to suddenly make a break.

At the instructions of Treasury Board the officials of the commission did discuss this, as is reported in the note, with the provincial government and we did not have a great deal of success and we were forced to report back to Treasury Board with the answer. They permitted us to put the subsidy in, in 1965. Having seen the provincial government in March or so, of 1965, when the time came for the renewal of the subsidy this year, and there was no change in circumstances, we once again notified Treasury Board of the situation and they approved the extension for 1966, with once again the injunction that we should approach the province to discuss this matter.

We have already made the opening approach on this and a number of other places of ferry services and the provision of ferry wharves where a ferry is operated both by the province and ourselves and we are hopeful of having an early meeting with the provincial people on a little broader basis, which will give us perhaps, a little more leverage to arrive at some arrangements here so that the provinces will contribute.

Mr. BALDWIN: It seems to be an excellent demonstration of co-operative federalism, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Baldwin. Paragraph 137.

137. *Subsidy for the construction of a floating fish processing plant, Liverpool, N.S.* In May 1961 when the Minister of Transport made a statement of government policy with respect to ship operating and shipbuilding, the House of Commons was informed that a basic intent of the new policy was to make it possible for Canadian ship operators to obtain new vessels from Canadian shipyards at reasonable and competitive prices instead of being forced to have them built abroad because of

lower construction costs that prevail in other countries. The intention was also to make it possible for the Canadian fishing industry to obtain the necessary degree of assistance to encourage it to modernize its fleet by the construction of new vessels in Canadian shipyards.

A step in implementing the policy was the establishment of the Ship Construction Assistance Regulations to be administered by the Canadian Maritime Commission. Each application for assistance required the approval of an interdepartmental committee established under the Regulations, the Minister of Transport and the Treasury Board. The Regulations make provision for the payment of a subsidy of 35% of the approved cost of a vessel of 200 tons gross tonnage or over that is not self-propelled and is intended for use in commercial enterprise. In April 1964 a Liverpool company, formed to engage in fishing and fish processing, and a shipbuilder made joint application for a subsidy in respect of what was described as a "steel barge (floating fish processing plant)". The contract price of \$545,000 was later accepted as the approved cost for subsidy purposes. This cost included fish processing equipment to be affixed or built into the structure, the cost of non-Canadian materials and equipment being \$127,000. On this basis the subsidy, when paid after acceptance of the barge from its builder and registration under the Canada Shipping Act, will amount to \$191,000 of which a substantial portion will relate to the fish processing equipment including an amount of \$45,000 in respect of materials and equipment of non-Canadian content. Our information indicates that the barge, while capable of mobility to a limited degree, is to be moored more or less permanently at Liverpool, N.S. to serve as a factory.

Although the application for subsidy fell within the Ship Construction Assistance Regulations and was approved by the several responsible authorities, it seems questionable whether the subsidy program was ever intended to reduce the costs involved in the development of a site for, and the fitting out of, a fish processing plant.

Mr. HENDERSON: All I can say on this Mr. Chairman, is that in the statement of January 17 last concerning the government's program to assist the shipbuilding industry it was stated that the subsidy would not apply to floating structures which are not considered to be vessels in the orthodox sense. I, therefore, presume that there will be no recurrence of the situation described in this paragraph. Mr. Darling may care to add something to that.

Mr. DARLING: The new subsidy regulations are to be under the authority of the Department of Industry. They are in the course of being drawn up.

Mr. HENDERSON: Yes, that is right.

Mr. DARLING: I think they are trying to cover problems such as this. The language of the regulations from which this was taken was that "an eligible ship means a vessel as intended for use in commercial enterprise" and that is referring only to the non-selfpropelled, a vessel non-selfpropelled of 200 tons gross tonnage over. It is not further defined under the regulations. I think the new regulations may have some elaboration of that wording.

Mr. SCHREYER: Mr. Chairman, the word "ship" does appear in the regulations?

Mr. DARLING: The word "ship"?

Mr. SCHREYER: Yes.

Mr. DARLING: Yes; it is defining an eligible ship; a ship eligible for subsidies under the regulations which were applicable under the old subsidy policy which is now suspended.

Mr. SCHREYER: And this floating factory was interpreted as a ship?

Mr. DARLING: Yes. It is registered as a ship by the Steamship Inspection and therefore meets the requirements.

The CHAIRMAN: Well, gentlemen, that concludes our work for this afternoon. I would like to say to the department officials we may appear to be critical of them at times; after all that is our duty yon this Committee, but we also realize that we could have a book published, not with all the bad things you do, but with some of the good things you do as well.

The meeting is now adjourned. You will all have notice of our next meeting. The clerk will write to the C.N. people and Northern Affairs.

APPENDIX "6"

CANADA DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING BRANCH

DAIRY PRODUCTS DIVISION

Ottawa, June 21, 1966.

MEMORANDUM TO: AGRICULTURAL STABILIZATION BOARD

ATTENTION: Mr. Eric Pook

Re: Theft of Butter

John Little & Son: This theft occurred on June 24, 1964. Generally speaking, our inspectors do not inspect transportation facilities involving movement of dairy products from storage to dock.

Weedon: This robbery occurred on March 7, 1965. Our inspector visited this storage on February 26, 1965 and reported temperatures and conditions of storage as satisfactory.

Couture: The first theft occurred on February 8, 1965. Our inspector visited this storage on January 7, 1965 and reported everything in a satisfactory condition.

Vermette: This theft occurred July 15, 1964. Our inspector visited this storage on July 3, 1964 and reported everything in order.

D. B. Goodwillie,
Director.

DBG/md

APPENDIX "7"

OFFICE OF THE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF FINANCE

June 27, 1966.

Mr. A. D. Hales, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. Hales:

I have been absent from Ottawa for some days on official business, but in accordance with my undertaking to the Public Accounts Committee on June 16, 1966, I now submit the following analysis of the previous years' uncollectable accounts receivable of the Department of Finance in the amount of \$59,922 as reflected in Appendix 13, page 9.25 of Volume I of the Public Accounts of Canada for the fiscal year ended March 31, 1965:

1. *Payment of salary beyond statutory retirement age*
H. E. Ness, Feb. 12, 1958-Sept. 28, 1962 Collection suspended
by PC 1963-3/679 (TB 609643) of May 2, 1963.....\$ 31,982.35
2. *Payment of retiring leave during subsequent employment with
Unemployment Insurance Commission*
W. G. Irwin, April 5-Sept. 5, 1961 Collection suspended by
TB 617104 of Nov. 21, 1963\$ 1,284.82
3. *Overpayment of rental allowance resulting from confusion be-
tween two successive Orders in Council which was no fault
of employee*
R. M. Keith, March 15-Dec. 31, 1948 Collection suspended by
TB 37016 B of April 26, 1949\$ 151.07
4. *Overpayment of pension to annuitants, due to undisclosed per-
iods of casual re-employment between January 1, 1954 and
July 1, 1960 (See schedule attached)\$ 25,888.99*
5. *Retirement fund overpayments*
E. Hurens\$ 3.15
H. Lapointe\$ 4.52

\$ 7.67

This was deleted during the fiscal year 1965-66 under Ministerial
authority dated March 24, 1966.

6. *Wartime Prices and Trade Board\$ 607.00*
It is proposed that this amount will be deleted in the fiscal year
1966-67.

\$ 59,921.90

Action will be taken during the 1966-67 fiscal year to seek approval to delete from the accounts the amounts shown under Items 1, 2 and 3, together with the outstanding balance for overpayments under the Public Service Super-annuation Act, and also the item in respect of the Wartime Prices and Trade Board.

If there is any further information you require I will be only too happy to provide it.

Yours sincerely,

H. R. Balls,
Comptroller of the Treasury.

Overpayments of pension to annuitants, due to undisclosed period of casual re-employment between January 1, 1954 and July 1, 1960

Name	Amount	Name	Amount
J. W. Dolby	\$ 172.30 (1)	A. M. Savoie	421.24 (1)
A. E. Brain	158.44 (1)	L. G. H. Stunden ..	307.21 (1)
	(2)	E. A. Magee	122.04 (1)
H. C. Brown	138.60 (1)	J. D. Barton	164.24 (1)
R. Davis	198.83 (1)	R. P. Fisher	402.65 (1)
N. A. Flint	302.42 (1)	D. D. Perry	249.76 (1)
H. L. Parry	701.20 (1)	J. W. Webster	115.19 (1)
E. Hood	2.39 (2)	J. W. Bowie	1,007.97 (4)
E. J. Gauvin	217.63 (1)	H. J. Stryde	178.28 (1)
H. L. Cunningham ..	164.92 (1)	G. Smallwood	530.55 (1)
E. V. Cotter	239.43 (1)	D. McCowan	452.54 (1)
A. L. Vallée	141.70 (1)	I. Robson	305.70 (1)
J. Howarth	641.64 (1)	A. Desormeaux	150.26 (1)
J. D. Cameron	382.51 (1)	J. D. Nadeau	199.93 (1)
A. E. Rice	682.25 (1)	C. J. Rickard	178.07 (1)
H. A. Tinkham	259.92 (1)	J. C. Patchell	141.81 (1)
H. Clowes	219.94 (1)	H. R. McEwen	277.42 (1)
H. W. Diehl	149.01 (1)	J. Thorpe	244.66 (1)
D. Turpin	82.74 (2)	C. R. Brewer	224.55 (1)
B. A. Heckler	335.22 (1)	H. Ching	104.07 (1)
D. Campbell	466.67 (1)	F. N. George	137.17 (1)
H. R. Barnes	203.81 (1)	J. E. Shaver	706.16 (1)
W. E. Seeley	180.82 (1)	J. B. Whalen	616.84 (1)
R. T. Lecompte	248.02 (1)	C. W. Smith	117.18 (1)
	(2)	R. D. Weston	676.94 (1)
J. Mowat	577.27 (1)	W. M. Bentley	420.08 (1)
F. M. Wisswell	589.83 (1)	S. Wakelyn	451.33 (1)
C. J. Littlewood	299.38 (1)	A. Wismer	9.07 (2)
W. N. Duncan	115.11 (1)	V. A. Armstrong ...	126.15 (1)
W. J. Kelly	294.97 (1)	H. T. Chennells ...	345.71 (1)
D. R. Smith	240.99 (1)	R. C. Duthie	723.79 (1)
J. P. Henemader	363.91 (1)	J. H. Roberts	121.47 (1)
C. M. Magwood	124.87 (1)	W. H. Bickley	749.72 (1)
B. Sparrow	144.38 (1)	R. D. Rowan	68.81 (2)
C. Bryan	333.08 (1)	E. F. Wilks	216.02 (1)
F. Healo	16.30 (2)	A. W. Horner	102.46 (1)
C. A. Bishop	291.51 (1)	J. H. Willis	247.64 (1)

Name	Amount	Name	Amount
D. L. B. Mitchell ...	102.98 (1)	R. C. Boyle	59.54 (3)
S. Scholey	326.55 (1)	A. Guilbert	116.82 (1)
P. R. Batho	1.85 (2)	C. E. Colhoun	253.49 (1)
W. Campbell	21.45 (2)	J. Nelson	633.26 (4)
M. R. Tetrault	18.17 (2)	J. Whitten	246.44 (1)
W. H. Kreiger	108.46 (1)	W. Kehoe	98.41 (2)
C. A. Garceau	433.99 (1)	E. J. McWilliams ...	38.87 (4)
M. Crisp	132.89 (1)	O. Longset	604.94 (1)
S. Waller	103.33 (1)	R. Scroggie	237.61 (1)
L. Drinkle	92.04 (2)	B. B. Rhoades	106.42 (1)
W. L. Bustard40 (2)	R. W. Gray	425.34 (1)
C. Fortune	101.41 (1)		
E. J. Collins	214.92 (4)		
L. J. Lanthier	112.72 (1)		
			<u>\$ 25,888.99</u>

- (1) Deleted under authority of Order-in-Council PC 1964-10/490 of April 10, 1965 (81) \$ 23,495.09
- (2) Deleted by the Minister of Finance on March 30, 1965 under authority of Deletion of Small Debt Regulations TB 584003 of July 20, 1961 (13) 439.34
- (3) Deleted under authority of PC 1964-7/814 of June 4/64 (1) 59.54
- (4) Collection action suspended under the following authorities but no deletion action taken (4) 1,895.02
 - J. S. Bowie
 - PC 1961-11/597 dated April 27, 1961\$ 888.08
 - PC 1962-6/225 dated Feb. 22/62 119.89
 - E. J. Collins
 - PC 1961-43/1487 dated Oct. 19/61 214.92
 - J. Nelson
 - PC 1960-9/291 dated Mar. 10, 1960 633.26
 - E. J. MacWilliams
 - PC 1961-4/1715 dated Nov. 30/61 38.87

\$ 25,888.99

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

TUESDAY, JULY 5, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; *From Canadian National Railways:* Mr. E. J. Cooke, Vice-President, Atlantic Region; Mr. D. F. Purves, Assistant Vice-President; *From the Transport Department:* Mr. J. R. Baldwin, Deputy Minister; Mr. J. R. Strang, Director, Shipbuilding Branch; *From the Department of Northern Affairs and National Resources:* Mr. E. A. Côté, Deputy Minister; and Mr. F. A. G. Carter, Director, Northern Administration Branch.

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OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Gilbert,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—24.

J. H. Bennett,
Clerk of the Committee.

(Quorum 10)

MINUTES OF PROCEEDINGS

TUESDAY, July 5, 1966.

(28)

The Standing Committee on Public Accounts met this day at 3.50 p.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Noble, Schreyer, Southam, (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long, Dixon, Smith and Laroche of the Auditor General's staff; *From the Canadian National Railway:* Mr. E. J. Cooke, Vice-President, Atlantic Region; Mr. D. F. Purves; Assistant Vice-President, Mr. D. P. MacKinnon, Chief of Development Planning; and Captain D. C. Wallace, Marine Service Officer; *From the Transport Department:* Mr. J. R. Baldwin, Deputy Minister; Mr. J. R. Strang, Director, Shipbuilding Branch and Mr. G. C. Tilley, Departmental Financial Adviser; *From the Department of Northern Affairs and National Resources:* Mr. E. A. Côté, Deputy Minister; Mr. F. A. G. Carter, Director, Northern Administration Branch; and Messrs. Mills, Hembruff and Packwood, departmental officials.

The Chairman tabled a letter and attached appendices from the Deputy Minister of Public Works in answer to questions asked at the meeting, May 31, 1966. The Committee agreed to append same to today's Minutes and Proceedings as APPENDIX "8".

Mr. Baldwin, M.P. suggested that the Report and accompanying documents received from the President of the St. Lawrence Authority respecting acquisition of land from Lally-Munro Fuels Limited and construction of an oil pipeline be tabled pending further action by the sub-committee. The Committee agreed that the report be appended to today's Minutes and Proceedings as APPENDIX "9".

The accompanying documents were tabled and filed with the Clerk as EXHIBIT "XI".

Mr. Leblanc (*Laurier*) directed a question to the Auditor General concerning the staff of the Auditor General's Office.

The Committee agreed that the answer would be tabled later. (See APPENDIX "10".

The Chairman introduced Mr. E. J. Cooke, Vice-President, Canadian National Railways and Mr. Baldwin, Deputy Minister of Transport who were

interrogated, assisted by Canadian National Railways and departmental officials on the following paragraphs from the Auditor General's Report 1965:

Paragraph 118—Cost of little-used railway spur line, Pointe-au-Père, Que.

Paragraph 130—Cost of abandoned design plans for ferry vessel

Paragraph 131—Purchase and conversion of ferry vessel

Paragraph 132—Cost of faulty planning in ferry design.

The Chairman then introduced Mr. E. A. Côté, Deputy Minister of Northern Affairs and National Resources and departmental officials who examined on the following paragraphs from the Auditor General's Reports 1964 and 1965:

1964 Report

Appendix 2—11. Loss due to inadequate shipping procedures

12. Loss of fuel oil, Fort McPherson, N.W.T.

1965 Report

Paragraph 103—Inadequate accounting and financial control procedures, Fort Smith, N.W.T.

Paragraph 104—Inadequate control of stores at northern locations

Paragraph 114—Cost of revised and abandoned plans for buildings in Ottawa

Paragraph 135—Cost of "Dead-freight".

At 6.33 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, July 5, 1966.

● (3.48 p.m.)

The CHAIRMAN: Gentlemen, I realize there are only eight members present, but I also realize that two or more are on their way, Mr. Lefebvre and Mr. Schreyer.

We have one or two preliminary things with which to deal, and we will save a little time by commencing now.

First, I would like to table a letter from the deputy minister of Public Works in which he gives the answers to questions asked by members of the Committee when he was before the Committee as a witness.

Are there any other things to table, that the Auditor General, or anybody else, has?

Mr. BALDWIN: Mr. Chairman, you may recall that some time ago we were considering the question of the St. Lawrence Seaway Authority and at that time we became involved in considering a particular instance involving expropriation of land which had been released and the subsequent odd dealings with this land which finally involved the government in the expenditure of a lot more money than it should have.

I think there was a suggestion that this should be left to a subcommittee. However, there was no specific decision, but the Seaway Authority was asked to obtain further information and file a report, following which we would then consider what to do. I think that through some error, in the belief that the subcommittee was charged with the responsibility of dealing with it, I obtained a copy of this report, and as a result of discussions with you I think the subcommittee is going to deal with it.

I believe that in order to keep the record straight the report should be filed, as it is only through the authority of the main Committee that the subcommittee would be able to deal with it. I, therefore, suggest that this report on the St. Lawrence Seaway Authority, dealing with expropriation of land at Cornwall, be tabled and then the subcommittee would be free to consider what it should do, probably when we come back later on in the fall.

The CHAIRMAN: You are quite correct, Mr. Baldwin, in the procedure, and your subcommittee will handle this report as soon as possible.

Mr. BALDWIN: I should simply say that it is quite apparent from reading the report from the St. Lawrence Seaway Authority that this is a matter which should be considered by this Committee.

The CHAIRMAN: Now, gentlemen, if you will open the Auditor General's Report for 1965 at page 74, we will proceed with paragraph 118.

Excuse me, before proceeding, Mr. Leblanc, did you have a matter you wanted to bring up?

Mr. LEBLANC (*Laurier*): I have a question for the Auditor General, which I would have liked to put in French, but I see that there is no translator for the time being.

I am sure that the Auditor General—is there a translation?

An hon. MEMBER: The door was closed.

(*Translation*)

Mr. LEBLANC (*Laurier*): Mr. Chairman, my question is directed to the Auditor General. I am sure that he cannot provide me with an answer immediately. This concerns employees as of the 30th June, coming under the Auditor General. I would like the Auditor General to provide us here in the Committee with figures in this regard which would guide us in our recommendations. Could he give us the total number of employees as at June the 30th 1966 and how many of these employees are Canadian citizens born in Canada and what is their classification? How many are Canadian citizens by naturalization and what is their grade or class? How many are not Canadian citizens and what is their grade or class? What is the number whose mother tongue is French and are not bilingual, and what is their grade or class? What is the number whose mother tongue is English and are not bilingual and what is their class or grade? And finally, what is the number who are bilingual and what is their grade or class? This is a very elaborate question, I am sure that the Auditor General will have to carry out some research before providing the answer.

(*English*)

The CHAIRMAN: Thank you, Mr. Leblanc. I wonder if you would mind giving that question to Mr. Henderson in view of the fact that the transcript of these meetings is delayed so long. Do you have the question written out?

Mr. LEBLANC (*Laurier*): I have it, but I do not know if he will understand my writing.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Leblanc, I think we have a note of the questions you asked, and I may say that the information is all readily to hand because these are statistics which we keep prominently to the fore. With your permission, I will bring them to the next meeting and table them, if that would be satisfactory.

Mr. LEBLANC (*Laurier*): Thank you.

The CHAIRMAN: Paragraph 118. Mr. Henderson.

118. *Cost of little-used railway spur line, Pointe-au-Père, Que.* In 1958 the Department of Public Works decided to proceed with the construction of a deep water winter port at Pointe-au-Père costing approximately \$3 million. Included in this development was to be a spur line, 3½ miles long, from the Canadian National Railways main line to the proposed port. The Department estimated the cost of such a spur line at \$600,000 and invited the Railways to give favourable consideration to this investment as their share of the overall project.

The Railways declined, stating that their assessment of the situation was that the possible new rail traffic which might be expected to result

from the building of the line would not justify their assuming "all or part of the capital cost and/or the related annual maintenance cost".

In 1960 the Department obtained authority from the Treasury Board to enter into a standard industrial siding agreement with the Railways which provided that the Department would accept financial responsibility for the acquisition of the site, the construction of the right of way, maintenance and snow removal. The Railways agreed to install the rails and associated equipment for which an annual rental would be required.

Construction of the spur line was completed in 1961 at a cost of \$401,000 to the Department, whereupon it transferred the facilities to the Department of Transport for control and management, with the latter Department becoming responsible for the payment of the annual rental of \$4,169 for the trackage. However, no annual rental has been paid yet.

The Department of Transport was concerned that responsibility for this spur line should be thrust upon it in this way and asked for a clarification of policy. As a result, the Treasury Board in 1963 approved of a new policy to be followed in future with respect to the installation of railway tracks on government wharves. This policy provides that tracks at new wharves are to be installed only at the request and expense of a railway, with the railway determining whether the traffic involved would justify such consideration.

The wisdom of this policy is illustrated by the use made of the spur line since its construction at Pointe-au-Père. Only four carloads were handled on the spur in 1962 and none in 1963. The primary use of the track has evidently been to bring railway cars to the wharf in winter to serve as a windbreak for ferry traffic.

Mr. HENDERSON: Members of the Committee will recall that this paragraph was discussed in the Committee on May 31 when Mr. Lucien Lalonde, the deputy minister of Public Works, and his officials were present to give testimony.

You will recall the discussion which took place at that time, and the witness from the Canadian National Railway may be able to furnish some additional information, but before he does I would remind you that Mr. Miller, the chief engineer of the harbours and rivers branch of the Department of Public Works, in attesting to the correctness of the facts in this paragraph on that date, said quite simply that although the CNR did not recommend that the railway be built, they, nevertheless, built it: that Treasury Board approved that the federal government pay for it, which they did through the estimates of the Department of Public Works; and that the spur line had as Mr. Miller said, never been used; but I think it has been used three or four times.

The CHAIRMAN: Gentlemen, we have with us representatives from the CN, and I would like to introduce Mr. E. J. Cooke, the Vice-President of the Atlantic Region. Mr. Cooke, would you like to introduce the other three gentlemen you have with you?

Mr. E. J. COOKE (*Vice-President of the Atlantic Region, Canadian National Railways*): I would like to introduce Mr. Don Purves, the Assistant Vice-President, Research and Development, Montreal; Mr. Don MacKinnon of Montreal; and Captain Wallace of Montreal.

The CHAIRMAN: Thank you, Mr. Cooke. Mr. Baldwin, we met you and your staff the other day so that you need no introduction again today.

We had the Department of Transport here the other day and we did discuss this paragraph but I think what the Committee is interested in is to know the CN's version on this matter.

Mr. COOKE: With your permission, Mr. Chairman, I would like to call on Mr. Purves who is more familiar than I am with this particular subject.

Mr. D. PURVES (*Assistant Vice-President Research and Development, Canadian National Railways, Montreal*): Mr. Chairman, honourable members and gentlemen, the circumstances outlined by the Auditor General are a pretty accurate outline of what occurred.

I might add that I have a little additional information regarding the volume of traffic which has been handled on that spur line. There were three cars in 1962; seven cars in 1964 and 25 in 1965. In 1966, there were 123 cars, all in May and June when, due to the longshoremen's strike in the St. Lawrence ports, some ships put in there to discharge where they might have gone elsewhere. It would be my hope that this is something that will not occur too often.

We built the line at the request of the Department of Public Works after declining to make any contribution to the cost of it because we could not see the volume of traffic accruing to the line which would justify the railway assuming this capital expenditure. We indicated that this could be built only under a standard siding agreement. This was agreed to by the Treasury Board, and we prepared the usual agreement and the agreement was executed. Thus far, we have had no rent. It adds up to about that amount.

The Chairman: Are there any questions?

Mr. MUIR (*Lisgar*): What was the original purpose of building the line?

Mr. PURVES: A winter port was being established at this location and the department felt that this should have a direct rail service, or connection, to our main line.

The difficulty was that we could not see new traffic accruing from this development, having in mind that Rimouski is only eight miles away and already has trackage on its public wharf. Of course, the results have pretty well borne out our conclusion. There was not much new traffic to be had there.

Mr. MUIR (*Lisgar*): This was built to the wharf; is that right?

Mr. PURVES: Yes, right to the wharf.

Mr. MUIR (*Lisgar*): Has there been any ship traffic to this?

Mr. PURVES: A little; for instance, in 1962, the seven cars of cement were a transfer from rail to ship. Most of the traffic in 1964 and 1965 was in aluminum ingots which came across the river by water and were transferred to cars on this spur and forwarded to Saint John and Halifax.

Mr. MUIR (*Lisgar*): Were negotiations started with your company by the Department of Public Works?

● (4.00 p.m.)

Mr. PURVES: Yes. The department initiated negotiations in the field. The engineer of the department, I think at Rimouski, got in touch with our industrial engineer at Moncton and said that the department was looking at this

and would be interested to know what would be the attitude of the railway toward building it at railway expense.

The thing was checked out; we had our traffic officers evaluate what new traffic they saw coming as a result of it, and the conclusion was that the railway could not justify this expenditure as a railway expenditure.

The department pleaded that the federal government was spending something like \$3 million on this project and they thought that the railway might very well spend \$600,000 on it, but we still could not see it.

Mr. MUIR (*Lisgar*): You were unable to dissuade the department from going ahead with the project?

Mr. PURVES: We did not really feel that it was our business, sir. If they wanted the line and were prepared to pay for it, that was their judgment.

Mr. LEFEBVRE: Is this deep water winter port being used at the present time?

Mr. PURVES: Yes. In May and June there were 123 carloads of traffic that came into it.

Mr. LEFEBVRE: How many?

Mr. PURVES: 123 railway carloads. I do not know what that represented in number of vessels.

Mr. LEFEBVRE: But I thought that the primary consideration for building it was for a winter port.

Mr. PURVES: Exactly.

Mr. LEFEBVRE: Is it being used at all in the winter?

Mr. PURVES: I do not think it is being used very much but I am not acquainted with the facts.

Mr. LEFEBVRE: What is the closest winter port to this one that could be used?

Mr. PURVES: We see traffic in the winter time going in and out of Rimouski.

Mr. LEFEBVRE: How far away would that be from this?

Mr. PURVES: About eight miles, up river.

Mr. LEFEBVRE: So we have a \$3 million expenditure for a winter port that is being used only in the summer time? And hardly even then. The waste is not the \$600,000. It is the total of \$3 million, apparently.

Mr. PURVES: It is being used the year round, I think, by a highway ferry. This would be the *Père Nouvel* that went into service between the south shore, Baie Comeau and Sept Îles. I am not certain of the Sept Îles; it went into Baie Comeau.

Mr. LEFEBVRE: 120 railway freight cars?

Mr. PURVES: No; this is a highway ferry.

Mr. LEFEBVRE: But there were 120 freight cars that used the port, or were unloaded at this port?

Mr. PURVES: We took on, or unloaded, 123 cars at this port in May and June of 1966. But this would be an unusual circumstance. It reflects the longshore difficulties at other ports on the St. Lawrence.

Mr. HENDERSON: I would point out, Mr. Lefebvre, that my report here was written in the fall of 1965, and up to that time they were dealing with the years 1962 and 1963, and that is where the reference is made to the four carloads. They seemed to have stepped it up to over 120 carloads in May and June 1966 by reason of the explanation given by Mr. Cooke. But that is all that it had been used up to the time this report was written.

Mr. FORBES: After reading all this report, it appears to me that this line has served a very good purpose. First, it acts as a windbreak and second, it is a snow fence for the ferry. What more could you ask?

Mr. PURVES: The windbreak is a new one to us, we had not heard of that before.

Mr. FORBES: That is what it says.

The CHAIRMAN: Well, gentlemen, it would appear from the discussion which we have had on this, which has been quite lengthy and rather thorough, that the CN people advised that this was poor policy and bad judgment to build this spur line; they advised the Department of Public Works accordingly. Nevertheless, Public Works proceeded and put the pressure on the CN and they finally agreed to build the railway.

Mr. PURVES: I do not think I would like to put it quite that way, sir.

The CHAIRMAN: First of all, let us put it this way. You said that the CN said it would not be wise to build it.

Mr. PURVES: It would not be wise for the Canadian National to build it at Canadian National expense.

Mr. LEFEBVRE: You passed it.

The CHAIRMAN: In other words, if it is your money go ahead, but not with ours.

Mr. PURVES: Yes.

The CHAIRMAN: The other point is that it appears that out of this you have adopted a new policy. This policy provides that tracks at new wharves are to be installed only at the request and expense of a railway with the railway determining whether the traffic involved would justify such consideration.

Mr. PURVES: This is not our new policy; we have always had this policy.

Mr. LEBLANC (*Laurier*): That is the Treasury Board policy.

The CHAIRMAN: What you are saying is that policy, anyway.

Mr. PURVES: We think it is a good one. It is the one we pursue with private industry. If private industry wants a siding somewhere and we think it will bring enough new railway traffic to justify our paying part or all of it, we ask for a suitable and appropriate traffic guarantee and build the line assuming all or part of the expense. In other cases we ask the industry to take the whole

expense, exactly as it is here, and they decide in their own minds whether it is worth their paying the shot.

The CHAIRMAN: What are you going to do about the annual rental from the Department of Public Works? They are not paying you.

Mr. PURVES: We told the department that if we had foreseen this at the time, we would have asked them to buy the track while they were at it and there would be no rent involved. We have since said that we would look to get either the cost of the track, or the rent. We have not yet gone so far as to say, as in the case of a private industry which was five years' outstanding in rentals, that we would have to give some thought to removing the track.

The CHAIRMAN: Where does this rental appear in your bookkeeping? Is it in accounts receivable?

Mr. PURVES: That is right.

The CHAIRMAN: Uncollectable?

Mr. PURVES: Just accounts receivable.

Mr. BALDWIN: Mr. Chairman, do you think the debtor is good for the amount if appropriate proceedings are taken?

The CHAIRMAN: It was not a very successful deal.

Let us proceed with paragraph 130.

130. *Cost of abandoned design plans for ferry vessel.* In February 1964 the Department of Transport retained a firm of naval architects to prepare plans and specifications for an ice-strengthened railway car ferry to operate between North Sydney, N.S., and Port aux Basques, Nfld. A fixed fee of \$110,000 was agreed upon and the architects submitted a preliminary general arrangement plan and preliminary stability particulars.

Shortly after this date the Department informed the architects that the Canadian National Railways, which would be operating the vessel and had been consulted before the decision for an ice-strengthened ferry rather than one with full ice-breaking capacity had been made, were "quite emphatic that the vessel be designed for ice-breaking service and consequently the power will have to be revised to give an 18-knot service speed with diesel electric propulsion and ice-breaking qualities and scantlings".

After the architects had notified the Department that they were making revisions to meet the Railways' requirements, they were directed to suspend work while the issues involved were reconsidered. In April 1964 the Department decided that as the difference in the cost of building a full icebreaker as distinct from an ice-strengthened vessel would be very great, its original decision should be confirmed. The architects were then instructed to proceed with the original proposal.

The architects requested a revision of the fee that had been agreed upon in February 1964 which was then re-set and agreed to at \$130,000, or \$20,000 more than the original fee.

Mr. HENDERSON: The subject matter of this note was discussed on June 28 when Mr. Baldwin and his officials spoke to it.

As you will recall, this note indicated a non-productive expenditure which amounted to \$20,000. The facts would seem to be self-explanatory.

The interest of the C.N.R. in this note lies in the fact that, since they were going to be the operators of this vessel in the ferry service, they wanted it to have ice-breaking capabilities. I think at the last meeting it was brought out that the department's view was that as long as the vessel was strengthened against ice that would be sufficient.

Members will recall that it was as a result of a discussion between these opposing views that the department left the impression that the non-productive expenditure should not be laid at its door.

No doubt the witness from the C.N.R. will have some additional information to give the Committee on this point.

The CHAIRMAN: I suppose Captain Wallace or Mr. Cooke will answer this question.

Mr. COOKE: Mr. Chairman, this is a problem which we are faced with in the Cabot Strait, mainly around Newfoundland. In areas where ice prevails the service is curtailed in the winter time, but across the Cabot Strait, which is a life line to Newfoundland, it is essential that this line of communication be operated as efficiently as possible the year round.

It was with this thought in mind that the Canadian National Railways, in particular, were anxious to see this vessel as a full icebreaker. We already have an icebreaker in the form of the *William Carson* which does very good service each year during the ice season. There is also a second ship which is being constructed at the present time, and it will be an icebreaker. This ship is designed for passengers, automobiles and trucks. We also felt that the rail car ferry should be of the same general construction.

When we were made acquainted with the fact that this ship was going to be merely strengthened for ice, we suggested to the department—in fact, we strongly recommended—that it be a full icebreaker.

After reviewing the economics of the situation, the department felt that these would not justify the added expenditure of making this vessel a full icebreaker, and it was the apparent delay that was caused while these economics were being developed that resulted in the increased cost, as I understand it.

Our reasons for recommending an icebreaker were simply to provide better service to Newfoundland, which I think that we could have done; there is some difference of opinion on this, but we as operators felt that this was the way it should be.

The records that we have of ice problems in the Cabot Strait over the past 26 years indicate that there were only six years when we did not have rather serious ice condition the *William Carson* can operate fairly regularly, although there have been occasions when we have had to divert the *William Carson* to an alternative port. This would not have to be done for such a prolonged period as will be the case with a rail car ferry which is merely strengthened for ice.

The CHAIRMAN: Mr. Cooke, I do not think you have answered exactly just what the Committee want to know. The Committee want an explanation on this statement which appears in paragraph 2:

Shortly after this date the department informed—

—that means the Department of Transport—

—informed the architects that the Canadian National Railways, which would be operating the vessel and had been consulted before the decision for an ice-strengthened ferry rather than one with full ice-breaking capacity had been made, were “quite emphatic that the vessel be designed for ice-breaking service”.

We were lead to believe the other day, in discussing this, that the Department of Transport proceeded and asked the architects to design an ice-strengthened ferry, on the assumption that you people had been consulted, and that you had agreed to an ice-strengthened ferry; that after these plans had been drafted and drawn up, along with the specifications, you changed to your mind to a full icebreaking capacity boat, and that this is what cost the taxpayers another \$20,000, for having the plans and specifications changed.

This is what we would like to get straight.

Mr. COOKE: This is not quite correct.

As soon as we were informed of the fact that this ship was not to be a full icebreaker we took exception to it and indicated to the department that this vessel should be a full icebreaker.

The CHAIRMAN: That is where the question lies.

Has the Committee any questions?

Mr. MUIR (*Lisgar*): Before the design of the ferry had been decided upon, were you consulted by the architects of the Transport Department in regard to the type of vessel you should have?

Mr. COOKE: Yes, we have fairly close liaison with the department, and, rightly or wrongly we assumed, in the early stages of whatever discussions we had on this ship, that it would be a full icebreaker, because we had just finished the preliminary stages of our discussion on what we then called the *Argentia* ferry which was designed as a full icebreaker. The *William Carson* was a full icebreaker, and we assumed that this one would be, too. It was only when we found out that it was not to be a full icebreaker that we then said that, in our opinion, it should be a full icebreaker.

Mr. MUIR (*Lisgar*): You would agree that in this particular case the liaison slipped a little?

Mr. COOKE: To some degree, yes, I would say that this was so.

The CHAIRMAN: Mr. Baldwin, would you like to say anything at this point?

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): I am sorry that I have not had a chance to see the transcript of the evidence. If by any chance I misstated the position, I would apologize, but I do not think I did.

I think the point that I certainly tried to make was not that there was a change in the sense that may have been suggested in the earlier remarks but that we took a decision to build an ice-strengthened ferry at the outset, knowing at the outset that the CN would have preferred a full icebreaking ferry. There was no lack of knowledge of the CN's wishes at that stage, because of the liaison Mr. Cooke mentioned.

The fact was that, having then started the work, the CN, as was its right, quite properly made very strong representations to us to reconsider and change our decision, and we felt that, as the client, or the user, we should, at least, take time out to study their representations.

Having done that—and this was one of the reasons for the additional cost, because, in addition to economics, the architects had to look into cost factors—we came to the conclusion that an additional \$5 million in capital for a full icebreaker was not justified.

This was a judgment decision on the part of the department, or the government, if you will, that it would be better to save the \$5 million and incur the handicaps which might, upon occasion, arise. It was also taken in the knowledge that there was an alternate port to be developed in the Canso area.

Therefore, it was a reconsideration request we received, not a request for a change.

Mr. MUIR (*Lisgar*): Is this ferry in continuous service now?

Mr. BALDWIN (*Deputy Minister*): It is still under construction.

Mr. MUIR (*Lisgar*): It is still under construction?

Mr. BALDWIN (*Deputy Minister*): This is not yet in service.

Mr. MUIR (*Lisgar*): But you feel that there are times when you could not have continuous service? Is that right?

Mr. COOKE: As Mr. Baldwin has said, this is a judgment area and a degree of service that we are talking about.

We, in the railway, sometimes have to make these same decisions in the light of heavy capital expenditure. We have no quarrel with these decisions.

It was our responsibility to indicate to the department the problems we have with operations and we tried to indicate how serious they might be to the service. Once we have done that, then the decision rests with them on whether or not they can afford the sort of thing we propose, and this is what has happened in this particular case.

What will happen to the service is this, that we will in all probability have to operate out of an alternate port which will be further away from the island of Newfoundland than we might otherwise have been, and to that extent the efficiency of this particular ship will be reduced somewhat, and will have to be picked up by some other method such as another ship being put into service, or something of this nature.

Mr. MUIR (*Lisgar*): In other words, you would have to reroute your trains during ice conditions?

Mr. COOKE: Yes, that is right.

Mr. MUIR (*Lisgar*): How long do these ice conditions last? Can you give me an educated guess?

Mr. COOKE: The outside limits of the ice problems in the gulf are usually from February 15 to about May 1, and it varies from there almost to zero. But, as I said, there were only six years in the last 26 that we have not encountered some severe ice conditions in the gulf.

Mr. FLEMMING: Mr. Chairman, I want to ask Mr. Cooke if, from the point of view of service, he has any reason to consider that the recommendation that this particular ship be equipped similar to the *William Carson* is not correct at this point? In other words, you still feel that from the point of view of service—leaving aside the capital expenditure angle—you would be better to have this equipped as a full icebreaker? You differ from the decision of the department in that respect?

Mr. COOKE: Yes; we feel that it should be an icebreaker, but I cannot escape the capital involvement here because it has to be considered.

Mr. FLEMMING: Yes, I realize that.

Mr. Baldwin tells us that he could not see recommending the additional \$5 million of cost so far as this second ship is concerned. Is that not where we stand at the moment? Mr. Cooke is convinced that there is going to be extra cost as far as the railway is concerned by diverting the traffic during the winter season. Is that right?

Mr. COOKE: Not exactly, sir. I was talking service as compared with cost.

When the department made their estimation of the economics they are prepared to suffer the whatever additional are because it is the cheaper of the two, as I understand it.

Mr. FLEMMING: My point, Mr. Chairman, is that it is the difference between a decision with respect to service and a decision with respect to capital expenditure. That is where we stand; I cannot see that we have a great deal of fault to find with anyone in this respect, because they are viewing it from two different angles. Is that right?

The CHAIRMAN: Mr. Flemming, would you go so far as to say that these differences of opinion should be settled before you proceed to build a boat?

Mr. FLEMMING: Yes, of course.

The CHAIRMAN: Is it not that which is confronting the Committee? Why did these two departments not get together and come to a final decision before they asked the consultants and set a fixed fee of \$110,000? I think the Committee would like an answer to that.

Mr. HENDERSON: Mr. Chairman, could I perhaps ask Mr. Baldwin if he could explain a press release of October 7, 1965 I have here, in which the minister announced that "...a contract amounting to \$10,750,000 for construction of a railway, car and transport truck ferry for the Newfoundland service has been let to Davie Shipbuilding Limited, Lauzon, Quebec. The vessel will have full icebreaking capability and will be operated by the Canadian National Railways between North Sydney, N.S. and Port aux Basques, Newfoundland."

Mr. BALDWIN (*Deputy Minister*): I would have to see the press release to know whether it is talking about the same ship.

Mr. HENDERSON: It is your department's press release.

Mr. BALDWIN (*Deputy Minister*): I am sure of that; I am not denying that, sir, but I would have to see the press release, because we are building several ships. If it is talking about the same ship the adjective "full" is not a correct adjective.

Mr. HENDERSON: That is why I wondered if you could identify this, to see if we are talking about the same thing.

Mr. BALDWIN: That press release, if it does apply to this ship, might have been issued at the time that the architects had been instructed to make the change, when there was apparently some impression that it would be a full icebreaker, but the decision was changed again.

I am just making a comment which does not need any answer.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I ask a supplementary of Mr. Baldwin? His department felt that the traffic did not justify the extra five million mentioned; is that correct?

Mr. BALDWIN (*Deputy Minister*): I think it was one of these judgment decisions where you have to balance a number of factors—the average number of days in which there will be ice interruption if you do not have a full icebreaker; the extra cost of providing a full icebreaker; the time involved in moving the ship down to an alternate port, if it is not a full icebreaker, on that average number of days that you might expect to experience; and what this means in deterioration of service to Newfoundland; and in terms of the operating costs. Having weighed all these factors, the decision was taken that the government would not be justified in putting the extra \$5 million in; that it would be better to have what we call the Lloyd's class on type of icebreaker. This is an icebreaker in one sense of the word because it is classified as one on a different basis, but you run the risk of experiencing a handicap, which may occur on an average number of days in any year, in having to divert it to Canso, or something of that sort.

Mr. SOUTHAM: Mr. Chairman, my question has been partly answered in the last few minutes of discussion. Mr. Henderson saw fit to bring to our attention this extra expenditure of \$20,000. I am reading this carefully and I do not feel that he puts the onus on the architects themselves. Would Mr. Henderson care to suggest to the Committee where he thinks the fault really lies in this, so that we will not have this recur?

Mr. HENDERSON: I find it difficult to pinpoint just where the fault would lie, Mr. Southam.

The fact of the matter is that it falls within the category of non-productive expenditure; that is to say, money spent for which no value was received by the Crown.

The circumstances described indicate that the architects were directed to suspend work while the issues involved were reconsidered; then, when they finally came to put in their charges, they were \$20,000 higher than would have been the case. I placed the facts on this basis for examination by witnesses before the Committee.

I think you have endeavoured to pinpoint where the blame lies, but it is naturally difficult to pin the real responsibility down in this case, just as it has been, I am afraid, in a number of others.

Mr. SOUTHAM: I would eliminate the architects, in reading it. Perhaps I am wrong.

Mr. HENDERSON: I do not think it is the architects here.

Mr. BALDWIN: Why do you not submit it to the Treasury Board?

Mr. LEFEBVRE: Mr. Henderson read a press communique, and Mr. Baldwin does not know if it is the right one or not. Could Mr. Baldwin identify it and then it could be made part of the record this afternoon, if it is the right one?

The CHAIRMAN: While we are waiting for that, I am wondering, in view of the fact, as appears from the evidence given, that liaison has not been good between the Department of Transport and the CN—that it has fallen down, as Mr. Muir said—why does the CN ask the Department of Transport to build their boats, anyway? Why do you not go out and buy your own boats and do your own purchasing and have them built wherever you can get the best tender?

Is that a fair question? You buy your locomotives and your boxcars and everything else that way. Have you ever given thought to this?

Mr. COOKE: This is rather a broad question. We have never contemplated that at all. As you probably know, this is a subsidized operation. It is considered as a rail link by the terms of the union of Newfoundland with Canada, and under these terms Newfoundland is guaranteed a continuous link between the mainland and Newfoundland; and the revenues derived from this link are those revenues compared with the regular rail tariff for that distance, which does not, by any stretch of the imagination, cover the expenses which are involved in either one of the ports, let alone the operation of the ships.

The CHAIRMAN: We subsidize your railway in the same way, yet you buy your locomotives and your boxcars wherever you get the best price.

Mr. COOKE: This is so.

The CHAIRMAN: Would the Committee perhaps consider that in the recommendation?

Is there any discussion from the Committee on this?

Mr. MUIR (*Lisgar*): The only thing that I see there is that you are not regarding this as part of the rail line?

Mr. COOKE: We never have.

Mr. MUIR (*Lisgar*): Do you operate it?

Mr. COOKE: We operate all the ships.

Mr. MUIR (*Lisgar*): You operate it?

Mr. COOKE: Yes.

Mr. MUIR (*Lisgar*): Do you keep it as a separate account from your others?

Mr. COOKE: Yes.

Mr. MUIR (*Lisgar*): And the federal government picks up the tab for any loss?

Mr. COOKE: Yes; for the trans-shipping at both ports and for the operation across the gulf.

Mr. FLEMMING: It is through Department of Transport, I presume, that you receive your reimbursement?

Mr. COOKE: That is right.

M. BALDWIN: I suppose you are in the—

Mr. FLEMMING: I just want to ask the date of the press release?

Mr. BALDWIN (*Deputy Minister*): The press release is quite accurate, sir. If you will read the press release it says: "Full icebreaking capability in accordance with Lloyd's rating class one". It was the same ship.

Mr. FLEMMING: What was the date of it?

Mr. BALDWIN (*Deputy Minister*): October of 1965, which was the award of the contract.

Mr. FLEMMING: Post-election; in an election, strange things happen! It was a full icebreaker but the qualifications—

Mr. BALDWIN (*Deputy Minister*): There are three classes of icebreaking structures, and the class is accurately described as Lloyd's rating class one.

Mr. FLEMMING: I do not imagine that point was emphasized, that it was Lloyd's rating class one?

Mr. BALDWIN (*Deputy Minister*): Apparently not.

Mr. BALDWIN: Mr. Chairman, I have a question for Mr. Cooke. I suppose the C.N.R. is the agent of government to carry out the undertakings of Canada in connection with the terms of the Act of Union?

Mr. COOKE: That is right.

Mr. BALDWIN: As such, in carrying that out, it is not part of your ordinary rail and other operations. However, in connection with the matter that the chairman raised, could there be such an arrangement that you would be given the responsibility on a contractual basis so that as an entrepreneur you could arrange your own purchasing on a basis which would be one where you had the responsibility? Could this make any difference? Would it be feasible?

I am just following up the point the Chairman raised.

Mr. COOKE: We have not given this much thought. It is a much deeper subject than appears on the surface.

Involved here are people who are experienced in ship design and ship building; the department now has people who are thoroughly qualified in this respect, and we would have to duplicate some of these services in our own company, which might be even more costly than it is at the present time.

Mr. MUIR (*Lisgar*): If you were indirectly doing the purchasing of the ship somewhere else Treasury Board would still have to approve the purchase, would they not?

Mr. COOKE: Yes.

Mr. BALDWIN (*Deputy Minister*): If I may interject, Mr. Muir, I think the point is really as you described it, that the C.N. is interested in providing the best possible service and informing the government on what it thinks is necessary for the best possible service. But the government, in assessing this, because it foots the bill, has, presumably, to determine how much money can be allocated to this at any given time.

Mr. LEBLANC (*Laurier*): Mr. Chairman, I suppose that if the C.N.R. built their own ships the charge to the government would be in relation to the cost of that new ship anyhow, and we would finally have to pay the bill. Regardless of who builds it, the cost comes back to us.

The CHAIRMAN: We have many examples brought to our attention in the report where the liaison seems to have broken down, and when it does break down it costs the taxpayer a lot of money. This is what made me think along those lines.

If there is no further discussion we will proceed to paragraph 131.

131. *Purchase and conversion of ferry vessel.* On May 19, 1964 the Department of Transport recommended to the Treasury Board that approval be given for the immediate purchase of a ferry for the carriage of freight between North Sydney, N.S., and Port aux Basques, Nfld. The Department stated that, if an offer to purchase were made before May 25th, the vessel could be acquired at a very reasonable cost.

The vessel, a 432-foot railroad car ferry, built in 1951 by a Canadian shipyard for the Miami-Havana service, had been on the market for some time and, since 1961, a firm of ship brokers in New York had made four separate attempts to interest the Department of Transport in acquiring the vessel. No action was taken, however, because prior to 1964 departmental policy had been to acquire ships only by construction within Canada. In 1964 the Department decided that an urgent situation which had developed with regard to the movement of freight between North Sydney and Port aux Basques warranted a change of policy which would recognize that emergency circumstances might justify the acquisition of a vessel outside of Canada.

The purchase price was \$1,513,000 "free alongside" the port of Sorel and the Department advised the Treasury Board that it estimated that repairs and conversion would cost \$750,000, making a total outlay of \$2,263,000 to place the vessel in service. The Treasury Board approved the purchase on this basis on May 21, 1964.

Departmental records indicate that a Sorel shipyard had obtained an option on May 8, 1964 to purchase this vessel at Jacksonville, Florida, from its United States owners for a price of U.S. \$1,200,000. The option, good until May 25th, was duly exercised and the vessel was then sold to the Department of Transport on May 26, 1964 for \$1,513,000, pursuant to the authority given by the Treasury Board.

On July 6, 1964 the Department requested authority to enter into a further contract with the Sorel shipyard for conversion and refit of the vessel. It was estimated that this work would exceed the \$750,000 figure given to the Treasury Board on May 19th, the submission stating that the costs would total \$755,000, plus \$481,000 as a contingency to cover extra work arising from the opening up and modifications called for by the Canadian National Railways, the intended operators of the vessel. It was not proposed to invite competitive tenders because of the time factor which necessitated placing the vessel into service as quickly as possible. The Treasury Board replied on July 29th that it would be prepared to authorize entry into a contract on a price to be negotiated basis on the understanding that a realistic target incentive contract would be submitted to the Board for approval after the vessel was opened up and specifications had been prepared.

It then developed that the work required exceeded all previous estimates and it was October 1964 before the Department negotiated a

contract with the shipyard on the basis contemplated by the Treasury Board, setting the estimated conversion cost at \$1,844,000 with an incentive clause covering the division of savings on the target price.

Costs incurred under this contract for the conversion and refit of the vessel, which was accepted by the Department on May 1, 1965, amounted to \$2,447,000.

Mr. HENDERSON: Mr. Chairman, this note was discussed on June 28. You will recall that it had to do with the purchase and conversion of a ferry vessel.

As indicated here, there had been four separate attempts made by New York ship brokers to interest the Department of Transport in acquiring this vessel. An urgent situation, however, appears to have developed in May 1964 when the Department of Transport obtained Treasury Board approval to purchase the vessel from a Sorel shipyard for \$1,513,000 Canadian.

We point out that, two weeks prior to its purchase, the Sorel shipyard in question had obtained an option, good until May 25, 1964, to purchase the vessel at Jacksonville, Florida, for the price of \$1,200,000 U.S. The Department of Transport bought the vessel from the Sorel shipyard the next day, May 26, for \$1,513,000 Canadian. The shipyard then obtained the contract for the conversion and the refitting of the vessel, finally delivering it to the department a year later.

It was in this connection, as explained in the fourth paragraph on page 84, that extra work arose due to the opening up and the modifications called for by the Canadian National Railways who were to be the intended operators.

The total cost of the conversion and refitting of this vessel, which I believe was accepted by the department about a year ago, has thus amounted to over \$2.5 million. Consequently the total cost altogether, including what was paid for the ship, has been over \$4 million.

The CHAIRMAN: We discussed this the other day.

Is there any section on which you would like to direct a question to the Canadian National Railway officials?

Mr. MUIR (*Lisgar*): Before we do, Mr. Chairman, I wonder if we could have the name of the owners of the Sorel shipyard?

Mr. HENDERSON: The company is Marine Industries Limited.

Mr. BALDWIN (*Deputy Minister*): It was previously owned largely by the Simard family, but is now in majority ownership of the Quebec provincial government, as I understand it.

Mr. HENDERSON: I believe there has been a subsequent change, but it was subsequent to this transaction, was it not, Mr. Baldwin?

Mr. BALDWIN (*Deputy Minister*): Yes.

Mr. MUIR (*Lisgar*): That would not be the case at the time of this transaction?

Mr. BALDWIN (*Deputy Minister*): No.

The CHAIRMAN: We had a pretty thorough discussion on this topic. After our investigation we were not at all happy that an individual made \$130,000

profit in about 18 days time just by taking an option on a boat and then turning around and selling it to the dominion government.

We will be reporting on that.

Are there any further questions? If not, we will proceed to paragraph 132.

132. *Cost of faulty planning in ferry design.* In September 1963 the Department of Transport entered into a contract with a firm of naval architects for the preparation of plans and specifications for an ice-breaking railway and automobile ferry for operation in the Northumberland Strait and Newfoundland service at a fixed fee of \$156,000.

Six months later it became evident that allowance would have to be made for rail car weights considerably in excess of those contemplated in the original planning if the vessel was to be properly stabilized. When this decision was communicated to them, the architects placed a value of \$102,000 on the work they had already done. They estimated that they would be able to use work to the value of \$47,000 in the revised planning and that the balance of \$55,000 represented the cost of the planning work to be abandoned. They were reimbursed in full by the Department.

In considering the Department's report on the circumstances of this case, the Treasury Board pointed out that the need for the design changes might have been avoided had departmental engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design. The Board pointed out that it would seem improbable that the planning and implementation of modifications to the design and construction of the freight cars took place entirely between August 1963, when the basic plans for the new ferry were developed for the Department, and February 1964 when the new weight data was provided to the Department by the CNR.

The Treasury Board directed that procedures be developed for the verification of basic data to avoid similar situations in future.

Mr. HENDERSON: You will recall that this non-productive expense involved a firm of naval architects who had, in point of fact, been principals in a case which you had discussed earlier in paragraph 85 of my 1964 report.

The circumstances of this case are involved. It will be seen that in September 1963, Treasury Board approved a contract for this firm of naval architects at a fixed fee of \$156,000 plus reimbursement of certain types of expenses.

Six months later it became evident that changes had to be made in plans to allow for rail car weights in excess of those originally contemplated in order to meet the requirements of the Canadian National Railways, otherwise the vessel apparently would not be properly stabilized, and this involved the architects in additional work which cost another \$55,000.

The Treasury Board pointed out to the Department of Transport that the need for the design changes could have been avoided had their engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design.

I think it was Mr. Baldwin who advised the Committee that the department had no knowledge that a change was to be made in the weight of railway cars to be handled on the ferry.

That is my recollection because we do not have the testimony to hand. That is in accordance with my notes, and I would ask Mr. Baldwin if he would mind correcting me on that, if I am wrong.

At all events, the matter was left and members wished to hear from the Canadian National Railways on this point.

The CHAIRMAN: Mr. Cooke, this is a similar situation to that in the previous paragraph. What the Committee would like to know is why the CN did not consult with the Department of Transport and decide what you wanted before you proceeded to hire the naval architects to draft you a vessel?

Mr. COOKE: Mr. Chairman, we did have some discussions with the department prior to September 1963. We had a meeting in June of 1963, at which time there was representation from the Canadian National Railways and the shipbuilding branch of the Department of Transport.

The CHAIRMAN: Would you speak a little louder, Mr. Cooke?

Mr. COOKE: There was also representation from the shipbuilding branch of the Department of Transport and from G.P.R. Campbell who are the design consultants.

At that time we indicated some of the general specifications that were required for this ship and we also indicated the average maximum weight of a car that should be carried on this ship. Subsequently, after some of this information was developed, it apparently became obvious to the architects that there was some instability in the ship if it was to be designed to the original dimensions that we had indicated.

The critical dimension that we referred to here was the overall length of the vessel at 400 feet, and it was not considered that the vessel should exceed this length because of the manoeuvring problems at Cape Tormentine and Borden. It was also suggested that the moulded breadth of the vessel be 61 feet, which corresponds to the present *Abegweit* that we have operating there. The reason for this suggested width was because we did not want to alter the wharves or the ferry slips unless we had to.

The CHAIRMAN: Did these discussions take place before the architects were called on the job?

Mr. COOKE: They took place on June 27.

The CHAIRMAN: Was this before the architects were hired?

Mr. COOKE: Yes. At that time we indicated that the maximum weight of car would be something in the order of 220,000 pounds.

When it was discovered that there was some stability problem we reduced this requirement to 177,000 pounds.

Therefore, the circumstances are not quite as stated in the report.

I am not aware of the problems that design architects have in trying to put together general specifications that the railway, or a customer, might give to a design consultant, in order to determine whether this, in fact, can be built into a ship of that size. Somewhere in the piece it was discovered that the ship would

have to be wider, and then we were approached to see what could be done about reducing the maximum weight of cars. This we did, and the total load for the 24 railway cars which can be loaded on the ship is at 177,000 pounds per car, average.

The CHAIRMAN: All the specifications were given to the Department of Transport before the naval architects were hired?

Mr. COOKE: We submitted 220,000 pounds, and later this was reduced—

The CHAIRMAN: At the request of the Department of Transport?

Mr. COOKE: In February of the following year.

The CHAIRMAN: Mr. Baldwin, the other day, I think, you told us—and I do not have the evidence before me—that you prepared, or asked the naval architects to draft designs and specifications; that they proceeded, and that the C.N.R. made these changes after the architects drafted the plans and specifications.

Mr. BALDWIN (*Deputy Minister*): I think Mr. Strang, as director of shipbuilding, referred to a change in CN specifications. I, myself, in my own evidence, indicated that I felt that the liaison could have been stronger in this case. I was not prepared to attribute the blame to any quarter among the three parties, but I had felt that it could have been improved.

However, the chronology that we put together subsequently does help to explain how this sort of situation can arise, if it would be of interest to you, sir, because the problem, as it emerges from this, could, perhaps, better be described as the difficulty of developing a ship design that would fit existing terminals without having to rebuild the terminals, in a major sense, and, at the same time, to have the ship capable of carrying more railway cars in a different configuration. This is what led, basically, to the difficulties that occurred, as we see it, looking at the chronology, in attempting to design and redesign in order to maintain stability and draught characteristics and still maintain these various objectives.

Mr. FLEMMING: My question is just for clarification of the phrase “an icebreaking railway and automobile ferry for operation in the Northumberland Strait and Newfoundland service”. Is it operated in both?

Mr. BALDWIN (*Deputy Minister*): This was built basically for the Prince Edward Island service, sir, but we attempted to design it so that it could be used as well in the Newfoundland service on completion of the construction of the causeway. In other words, it would have an alternate use.

Mr. MUIR (*Lisgar*): The only thing that I do not understand about the situation is that the architects must have been familiar with your wharfing capacity and the manoeuvrability that was going to be needed. Why could they charge for something that they planned in the first place in such a way that it was not going to do the job? They should have been familiar with all these things.

Mr. BALDWIN (*Deputy Minister*): The answer, again, is because this was not a simple case of being given specifications for a ship in a broad sense and being told to design the ship. Here they were given two limiting factors which normally you do not apply in design work. One limiting factor was that it had

to use, with as little modification as possible, the present Borden-Tormentine terminals, because those would be very expensive to rebuild; and this put limitations of breadth and draught in immediately. The other was that the CN, quite rightly, because they knew what the traffic requirement was, had asked that this be built to carry more cars and with a four track capacity instead of a three track capacity. They had to put these things together and this led them to develop a plan which had, in turn, to be readjusted or redesigned because the first plan raised questions with regard to stability and with regard to 20 foot draught.

This is the stage at which, while the CN had been fully consistent in its maximum weights from the outset, certain adjustments had to be made and new information provided about average weights, and new factors brought into the picture.

Mr. MUIR (*Lisgar*): Yes; but I still think that a competent architect, naval or otherwise, if given something to build, which has to have a capacity of so much and an overall length of so much, should be able to design something to carry your load. This information was given to the architects. They should not have had to redesign the ship, particularly when they were able to reduce the tonnage they were going to carry to fit their specifications. The architects should have had this worked out with the department and with the Canadian National before they went ahead. I do not know how much extra is cost—

Mr. HENDERSON: \$55,000.

Mr. MUIR (*Lisgar*): It cost \$55,000 extra. I think they should have had this information before they started. They should have been aware of the problem. I am only a layman, and I do not know anything about this, but it would seem to be sensible that they would have a certain length, a certain overall width with which they had to work and certain tons to carry, and that all the rest was simple mathematics. Would you blame the architects?

Mr. BALDWIN (*Deputy Minister*): I am not an expert on the subject, and, like yourself, Mr. Muir, I feel a little at a loss in attributing blame in this.

I can only state that it is my understanding that this was an exceedingly difficult task that we had given them and that it was not, therefore, surprising that some redesign work had to take place. This was much more difficult than the normal task and, in fact, the chronology that I mentioned shows that when they came back at about the six months point with a possible design layout, they were raising the question of having to achieve this by operating at a draught in excess of 20 feet, which was the limiting factor we gave them earlier. This was about the time we had to reopen discussions with the C.N. on the question of the maximum load.

Mr. SOUTHAM: Mr. Chairman, in dealing with this under the cost of faulty planning incurred in design under paragraph 132, we have almost an exact replica of what we discussed in paragraph 130, cost of abandoned design plans for a ferry vessel; and you will see in the last paragraph under section 132, "The Treasury Board directed that procedures be developed for the verification of basic data to avoid similar situations in the future." This is what we, as a Committee, are concerned with, just as the Treasury Board point out here that they are also concerned with it.

Has there been any discussion between the Department of Transport and the C.N.R. with a view to avoiding this in the future? If we can get something along this line I think we will have gone about as far as we can with it.

The CHAIRMAN: Has there been any change in policy between the C.N. and the Department of Transport so that this will not happen again?

Mr. SOUTHAM: As I said, the Treasury Board emphasized in the last paragraph that something should be done, and I think that we, as a Committee, have to agree with this.

Mr. COOKE: I must say, Mr. Chairman, that this has been a very difficult time for the railway and for the department, in many respects. We have three ports. North Sydney, Port aux Basques and Argentia, under construction in order to accommodate these ships. We also have the *Patrick Morris* and the *Leif Eriksson* and the rail freight ship and the new passenger ship that is coming. It has been quite a task to keep all these little details in proper perspective.

We recognized this problem, and we set up a man to do nothing else but coordinate, as well as it could be coordinated, all these things that were going on. We put all the ports on a critical path so that we would be able to keep things on the move and keep in touch with everything. We even went to the extent of putting our correspondence on the critical path to try to the maximum extent to keep everybody posted on what was going on. Even with these precautions we have not been able to corral everything.

We had something over 600 fragments in our critical path in order to keep up to date with this thing, and we are endeavouring to overcome this situation insofar as the railway is concerned. It is a problem of some magnitude.

Mr. SOUTHAM: In other words, you are taking Treasury Board's recommendation here to develop the proper procedures and not to have a recurrence, if possible?

Mr. COOKE: Very definitely.

Mr. FLEMMING: I would like to ask Mr. Baldwin if he has any doubt in his mind with respect to whether the architects had definite knowledge of what the department wished to accomplish in connection with the building of the ship? I can understand any department, and I can certainly understand the Canadian National, not being able to foresee every little eventuality or detail that might arise, but this is the reason you employ architects. It is to take off your shoulders the arrangement of the detail which will make the whole thing work.

My question is—and I am not asking you to attach the blame to anyone—do you have any reason to think that the architects did not understand what you were trying to accomplish?

Mr. BALDWIN (*Deputy Minister*): No, I think they had a definite knowledge of the task.

Mr. FLEMMING: That is what I felt, too. I feel that if they did not have the knowledge, they should have the knowledge. That is the reason you were employing them—for their technical skill and their knowledge of the very difficulties that Mr. Cooke has just enunciated. The fact was that this was a difficult situation with which they were dealing.

The CHAIRMAN: Mr. Baldwin, were you surprised when you received the bill for \$55,000 from the architects?

Mr. BALDWIN (*Deputy Minister*): Not really, sir.

The CHAIRMAN: Did you make any attempt to whittle it down?

Mr. BALDWIN (*Deputy Minister*): I think we went over their accounts very carefully to satisfy ourselves that this was, in fact, a legitimate expense that they had incurred.

Mr. SCHREYER: I think it would help to give us a better perspective of this problem if we were to know what the ratio was between these four instances in 1963, where the department was involved with either faulty vessel design or the need for vessel redesign—the ratio between this and the actual number of vessel construction contracts in which the department was involved in that year? For example, I assume that the department could not have been involved with, perhaps, more than 12 or 15 vessel construction contracts in that particular year?

Mr. BALDWIN (*Deputy Minister*): I am not sure I have that information readily at hand. Anything I would say would be in the nature of a guess.

We would be engaged in probably 20 or 30 refit contracts which are all quite substantial contracts; not new construction contracts, but still involving the same sort of work.

New construction has varied very considerably from year to year, according to the budgetary estimates. We have had as high as 12 to 15 ships under construction at the same time in a peak year and have dropped down, I would think, to around eight, I suppose, in a minimal year.

Mr. SCHREYER: I would hope that in 1963, it was more than eight, because I believe that it was in 1963 that we had these four instances of faulty design, or the need for redesign. At a ratio of four to eight, it would be obvious then that half of the construction programming of that year was faulty.

The CHAIRMAN: It was the same naval architects all the way through, I believe.

Mr. BALDWIN (*Deputy Minister*): No, sir. There was more than one naval architect firm involved.

Mr. HENDERSON: Mr. Chairman, I have been concerned at hearing some of the statements made in this discussion, because they seem at variance with the facts on which our conclusions were based. It is unfortunate, as Mr. Baldwin said, that we do not have the testimony here, but perhaps I could take a few minutes and trace for you the sequence of events.

The Treasury Board wrote to the Department of Transport in June 1963, and they expressed their concern about the need for making amendments to basic construction plans at this time—that is to say, they were faced with a bill for \$55,000—in view of the fact that the department had been requested to ensure that the design of the vessel would be flexible enough for alternate operations when authority to proceed with the design and specifications was initially given; and the secretary concludes his letter by saying that they have, therefore, requested that an account be given to them for the need for making design changes at this time.

A month after that letter was written the department replied to the Treasury Board, and it is to this reply that I direct Mr. Cooke's attention because it seems to place the blame on the Canadian National Railways, and made us wonder why the \$55,000 bill was not passed to them. I shall read you the pertinent parts.

During the basic design stage certain assumptions were made and one in particular resulted in our

—that is, the Department of Transport—

being required to reassess the principal dimensions of the ship. The general characteristics of this new vessel presently defined as *Abegweit II* were stabilized around the number and weight of rail cars used in the existing ferry, *Abegweit*. From August 1963 until February 1964 the design was processed by G. T. R. Campbell and Company using as a basis the freight car weight of 141,120 pounds. On February 21, 1964, the C.N.R. by letter advised that provision was to be made for the same number of cars as was originally agreed and that the weight to be used should be 177,000 pounds although some cars may be shipped at a weight of 220,000.

The department continues:

The impact of this information upon the design which was based on a maximum draught of 20 feet at 61 foot beam was considerable. In order to maintain a draught of 20 feet, it was necessary to increase the beam to 67 feet to maintain satisfactory stability, resulting in the design having to be redone. While stability is an exceedingly important consideration for the comparatively short and protected Northumberland Strait operation, it will be appreciated that it becomes of primary importance during the run from Nova Scotia to Newfoundland.

That is a quotation from the pertinent correspondence to the Treasury Board.

The CHAIRMAN: Gentlemen, I think we have come back to the very first question which I addressed to the witnesses: Why did the two departments not get together and discuss all the angles—the size of load to be carried, the number of cars, the number of tracks and all the other pertinent information—and then go to the naval architect and get a fixed fee and build the boat? This was not done, and it cost the taxpayers of Canada \$55,000 more.

Everybody has had the chance to express their views on it. The Committee will have to come to its own decision unless you have anything more, Mr. Cooke, that you would like to say.

Mr. COOKE: I would just like to say this. On April 17, 1963, there was a meeting in the office of the director of the shipbuilding branch in Ottawa, and at that meeting there was representation from the Department of Transport, Canadian National Railways and the Department of Finance.

At that meeting it was said that the following decisions were made in order that the shipbuilding branch can proceed with the preliminary and final design. One of the things that were mentioned was that the rail car deck would have a capacity for 25 rail cars with four lanes of traffic.

Then, again, as I told you earlier, on June 27, which was still prior to the letting of the contract, there was a further meeting when we indicated at that time that the average weight of the cars would be 220,000 pounds.

That is the way it more or less remained until February 1964, when the consultants arrived at the fact that the ship would not be stable if it was kept within these dimensions.

The CHAIRMAN: What you are saying, Mr. Cooke, is that you feel you gave all the pertinent information you could possibly give to the consultants?

Mr. COOKE: Yes. We are not naval architects; we are not competent in that field at all.

The CHAIRMAN: Then we come back to this sentence in here:

The Treasury Board has pointed out that the need for the design changes might have been avoided had departmental engineers—
—meaning the Department of Transport—

—taken the precaution to verify their information regarding freight car weights with the C.N.R.

Mr. STRANG do you want to say anything on this? You are the departmental man from Transport, who has to do with shipbuilding. I think it is only fair to you that we give you an opportunity.

Mr. J. R. STRANG (*Director, Shipbuilding Branch, Department of Transport*): Mr. Chairman, it is quite apparent that there has been lack of liaison in this.

The CHAIRMAN: What is so apparent to this committee is that we are here to protect the taxpayer's dollar and here are \$55,000 for which we have to account. This our problem.

Mr. HENDERSON: I would point out, also, Mr. Chairman, that on the basis of Mr. Cooke's statement it appears that the department gave the Treasury Board wrong information.

Mr. BALDWIN (*Deputy Minister*): If you think that is the case, I would like to have a copy of our Treasury Board submission before us.

Mr. HENDERSON: I would be glad to pass it over to you. I have it here.

The CHAIRMAN: Go ahead, Mr. Strang.

Mr. STRANG: Mr. Chairman, from the outset—and we have discussed this before—we tried to maintain the characteristics of the original *Abegweit*, to fit four tracks. Technically this means that the *Abegweit* has one funnel in the centre of the ship with a rather wide casing, and we would have to split the casing and put them at the sides, and try to get four tracks on it and an additional six freight cars.

It is quite usual for us to have discussions with the naval architect. As we mentioned the other day, there are only two major naval architects in the country and there is a third coming up now on the west coast. Depending on the volume of work, we select these people based on experience—their experience and their office capabilities—and Campbell was chosen to do this work with the intent, of course, of giving him the contract, which he did get in August or September of 1963.

The CHAIRMAN: Was he chosen after he had made the errors in those other designs?

Mr. STRANG: They had not been discovered then.

This meant, of course, that we probably had discussions with this man well before June, and he developed preliminary sketches based on the *Abegweit's* principal characteristics, but attempting to put on six extra cars. It is not a case of simply doing calculations. The drawings have to be prepared; with the lines of the ship at the various depths of water and depths of the ship; all the weights of the anticipated machinery that is going in have to be calculated; and this, of course, as we mentioned before, is a peculiar ship. She is a dual purpose ship; she has two propellers at the forward end and two at the after end. We have designed her so that when the causeway is completed we can get full power out of her astern if she is drawn into another service.

All this means that the architect has to go into complete and very great detail to calculate weights and centres of gravity in order to check the stability.

This is a lengthy procedure, which he did. Eventually, of course, we do come to the fact that liaison with regard to the information on the average weights of the cars to be used was, shall I say, less than adequate; but, at the same time, he had to go thoroughly into the original to prove that this ship would not float.

He came up, as a matter of fact, on February 3, 1964, stating:

We regret to state that with the stringent restrictions on the beam of this vessel, Canadian National Railways will perforce have to agree to operate it with a draught in excess of 20 feet.

This was based on the 61 foot beam which we tried to maintain in order to negate any alterations to the terminals.

This, of course, led to further discussion, and it was quite obvious that if we had to carry these extra cars and maintain this 20 foot limit in draught the ship had to be increased in beam.

The CHAIRMAN: Even before you had proceeded, the C.N. advised—

Mr. STRANG: Yes, but we had considerable work to do to prove that the ship would not be acceptable at 61 foot beam with 25 railway cars on it.

The CHAIRMAN: I think we realize that it is a difficult case.

Mr. STRANG: In similar fashion, sir, if I may say so, on the rail car ferry which we previously discussed under item 130, the difference in cost and what was paid to the naval architect for the redesign—this is the full icebreaking ship to the class I icebreaking situation which we had—they, in turn, had to do considerable work in order to prove that this extra cost that we were to put forward to my superiors of \$5 million was, in fact, a valid figure. They had to calculate the extra strength of the ship, the extra horsepower and the different types of machinery. This is partly offset, too, by the work that has to be done in preliminary discussions.

The CHAIRMAN: Did you attend the meeting that Mr. Cooke mentioned?

Mr. STRANG: No; I think Mr. Webster was at that meeting.

The CHAIRMAN: Was there a member of your department present?

Mr. STRANG: Yes; my chief of ship construction was there. He handled that.

Mr. FORBES: Mr. Chairman, it appears to me that we cannot attach all the blame for this over-expenditure on the architect. If you will read the second paragraph of clause 132:

Six months later it became evident that allowance would have to be made for rail car weights considerably in excess of those contemplated in the original planning if the vessel was to be properly stabilized. When this decision was communicated to them, the architects placed a value of \$102,000...

and it goes on. Then you can go on down again to 134, again the bottom paragraph:

In November the Department advised the architects that the design was to be modified for service in the St. Lawrence River and the Gulf of St. Lawrence and also to provide Arctic supply capabilities.

This indicates to me that the department did not know what they wanted when they started. After the work had proceeded they decided to change the plans, and this would make it directly the responsibility of the Department of Transport, not of the architect.

In addition to protecting the architect, had he been being paid on a percentage basis, with the extra required on the boat and the extra dimension he would have been getting the extra money on a percentage basis.

I do not think there is anything wrong with the architect. I think it was strictly the department altering their plans that was the cause of the over-expenditure in all of these cases.

The CHAIRMAN: I think we have gone about as far as we can go, unless anybody has any further questions.

We have the chief of the Department of Northern Affairs here, and we have to proceed with them.

Are there any further questions?

Thank you for coming, gentlemen.

If you will turn to the 1964 Auditor General's report and if the Department of Northern Affairs people will come forward we will start with page 171, item 11.

Mr. Baldwin, would you, or somebody from your department, stay because I think you are involved in this?

Mr. HENDERSON: Which one do you want to take first?

The CHAIRMAN: I thought we would clean up 1964. There are only two left, 11 and 12. Then we can proceed.

This is on page 171 of the 1964 Auditor General's report.

Mr. Côté, the deputy minister of the Department of Northern Affairs and National Resources is with us, and no doubt he will introduce his officials as we proceed.

Mr. E. A. Côté (*Deputy Minister, Department of Northern Affairs and National Resources*): I have Mr. Frank Carter here, who is the director of the northern administration branch; Mr. Hembruff, financial and management adviser of the branch, Mr. Packwood also of the branch and my executive assistant.

The CHAIRMAN: Thank you, Mr. Côté.

11. LOSS DUE TO INADEQUATE SHIPPING PROCEDURES.—In 1962 the Department of Northern Affairs and National Resources entered into a contract which provided for the supply and installation of fuel oil storage tanks and distribution systems at various northern locations. The Department assumed responsibility for the shipment of the contractor's equipment and material to the worksites. Many months after delivery to the several locations, the Department was informed of shortages and a check at each site was made by personnel of the Department and of the contractor. Subsequently it was necessary for the contractor to purchase additional material to replace the deficiencies. Due to inadequacies in the shipping procedures in effect in 1962, the Department was unable to ascertain the facts of the situation and the contractor was reimbursed \$14,298 for replacement material purchased by him and \$6,745 for his costs in connection with checking the material at the sites.

Mr. HENDERSON: The first item is number 11 in appendix 2 to my 1964 report, having to do with loss due to inadequate shipping procedures.

This is the first of two non-productive payments left over from the 1964 report, which relates to the Department of Northern Affairs and National Resources.

It indicates circumstances under which the department assumed responsibility for the shipment of the contractor's equipment and material to work sites at various northern locations. After delivery, shortages were found by departmental personnel and the contractor. As a result, the contractor had to purchase additional material to replace the shortages.

As the department could not ascertain the facts of the situation, the contractor was reimbursed \$14,298 for his replacement material, and \$6,745 for his costs in checking the material shipped to the sites in the first instance.

The CHAIRMAN: Now, Mr. Côté, we are pushed for time and the members of the Committee have adopted a policy of short, crisp questions and I hope the answers will be the same so that we can cover as much as we can. If you can bear right to the point we will appreciate it.

Mr. FORBES: Mr. Chairman, I wonder if the deputy minister could identify the sites as he goes along because some of us know little about these.

Mr. CÔTÉ: In 1962, Mr. Chairman, we entered into a contract with Lower Construction Company to deliver fuel storage tanks to eight locations in the eastern Arctic. I do not have the names of the sites before me, but I could obtain them if you want them.

The department made the arrangements with the shipping company concerned to accept all the items to be sent to the contractor in 1962. During that summer the contractor worked on one site only and as a result of that work and rough checks made at other points it appeared that there was the danger that a number of items had been lost in shipment, or delivered to wrong sites.

Knowing that the lack of these materials would cause serious delays once the crews were on the site in the summer of 1963, we arranged with the contractor for an extra contract to check the sites, and later, as a result of this,

obtained the additional material at \$14,298 for which the contractor was reimbursed.

The problem, as we see it, arises from two factors. In the first place, our supply system at Montreal and our checking system in the field were not adequate to get early knowledge of discrepancies. We have since changed the procedures. Now we do try to get, generally, the contractor to take on the whole contract for the delivery of the material for his contract, and, secondly, in general, for the other material and equipment that may be required for our various posts we have put on board ship seasonal workers to do the actual checking on the site.

There is a tendency on the part of some shipping companies, travelling in the farther areas where there is no checking on what is dumped off, to say "Well, this can get off here" and sometimes the material does get off at the wrong place, or some items get broken, or are not delivered. By this means, now, we finally believe the deficiencies have been reduced to a minimum.

Mr. SCHREYER: Was it the normal practice for the department to assume responsibility for the delivery of a private contractor's equipment?

Mr. CÔTÉ: At that time we were trying to do it in what we thought was the least expensive way, to deliver the stuff on the site and to have a contractor erect it. Now we are making it a total contract, that he deliver the stuff on the spot and erect it and be responsible for it.

(Translation)

Mr. LEBLANC: What was the make up of the contractor's cost for the checking of the material in these locations where the material was delivered, —\$6,745. I was under the impression that the contractor obviously should check his good himself. This was his own responsibility, was it not?

Mr. CÔTÉ: But such was not the case here. We would deliver the goods in eight places and it was the contractor who was erecting the fuel tanks. However, after the erection of the first fuel tank finding we were short of material, we asked him to inspect all sites where the material had been delivered. He had to rent planes to go around. The present practice provides that the contractor will deliver the goods himself. He is responsible both for delivery and erection.

(English)

The CHAIRMAN: It would appear, looking back on it, that it was a very sloppy arrangement. Am I right, Mr. Côté? It was so sloppy that you have corrected it.

Mr. CÔTÉ: It was a penny-pinching policy, Mr. Chairman. You are trying to save money but you do not. It costs us close to \$15,000 a year today to have men on board these vessels.

The CHAIRMAN: It is the first time I have been told that the government can do anything cheaper than a private individual. It always costs more, as I see it.

Are there any questions?

It says here "many months after delivery". How many months after did you discover the shortages?

Mr. CÔTÉ: Three or four months, at the most.

The CHAIRMAN: Who paid for the shipment of the second lot to replace the original material?

Mr. CÔTÉ: The department paid for that.

The CHAIRMAN: That is not included in this cost, then? That would be over and above this?

Mr. CÔTÉ: I think that is the total cost, \$14,298.

The CHAIRMAN: Do you have any general observations?

Mr. HENDERSON: The contractor, you see, replaced the material that was lost and then the department, as I think Mr. Côté said, entered into a second contract with him. The contractor was reimbursed \$14,298 for the replacement material he purchased, and then they went on to pay him the amount Mr. Leblanc referred to, \$6,745, for his costs in checking the first lot of material that was missing.

The CHAIRMAN: Your question, Mr. Leblanc, was a good one.

Mr. LEBLANC (*Laurier*): The total error amounted to \$21,043.

Mr. FORBES: It took \$6,745 to check \$14,298 worth of material?

Mr. CÔTÉ: You are at northern sites, Mr. Chairman.

Mr. NOBLE: Mr. Chairman, I would like to know if they were able to track down any of this material. Did they find out if the material ever was put on the boat?

Mr. CÔTÉ: I do not think we were able to track down the material.

Mr. Carter might reply to that.

Mr. F. CARTER (*Director, Northern Administration Branch, Department of Northern Affairs and National Resources*): Mr. Chairman, these were fairly large oil storage installations, probably worth from \$50,000 to \$75,000 apiece, so that the amount of material was very substantial.

A check had to be made of all the material, of course, that had been landed in order to discover what might have been missing. The checking job was fairly substantial. A great deal of material, of course, was on site—by far the majority of material was on site—but there was \$14,000 worth which did not appear and which was not discovered subsequently, to the best of our knowledge.

The CHAIRMAN: In answer to the question Mr. Noble asked you, were you positive that these goods were on the boat when it left Montreal?

Mr. CARTER: The answer is no.

Mr. NOBLE: You were not sure?

Mr. CARTER: No; at that time, as Mr. Côté mentioned earlier, our procedures for checking material which went on board ships were simply not adequate.

Mr. HENDERSON: We read in the submission, to the Treasury Board, Mr. Chairman, the statement that a portion of the missing material was located in the Hudson's Bay Company's warehouse in Montreal.

The CHAIRMAN: Apparently it never left Montreal, then.

Mr. FORBES: In that case, why did they not recover some of the money?

The CHAIRMAN: What was the question, Mr. Forbes?

Mr. FORBES: Why did the department not recover the value of the material which they discovered in the Hudson's Bay Company's warehouse in Montreal?

Mr. CÔTÉ: This material was probably taken into our own stores and stocked for other storage tanks in another year.

Mr. FORBES: In other words, you still received value for your money?

Mr. CÔTÉ: We received that value, but nevertheless there is an expenditure of close to \$21,000, which was a net loss.

The CHAIRMAN: Are there any more questions?

Mr. MUIR (*Lisgar*): There is no way of checking whether the contractor actually put enough material on there to build all the equipment for those sites? You do not know whether he short-changed you, or not?

Mr. CÔTÉ: There was no way of telling at that time.

Mr. MUIR (*Lisgar*): This has been corrected since that time.

Mr. FORBES: One more question: Do you have any way of checking the quality of the material which you get? That is, are you getting the material for which you are supposed to be paying?

Mr. CÔTÉ: Yes; now we are able to see that, and we are getting the quality of material.

The CHAIRMAN: This happened in 1962, Mr. Côté. When did you change your system of checking, and stop assuming responsibility for delivery? When did you make the change?

Mr. CARTER: Immediately after this, in 1963.

Mr. MUIR (*Lisgar*): Do you have people from the department checking the quality of the material which is delivered to the contractor?

Mr. CARTER: Mr. Chairman, there are two different cases here.

Where a contractor nowadays is erecting, let us say, an oil storage tank for us, he has his materials delivered directly to the site. On the site our engineers inspect to make sure that the materials are adequate and that it is correctly erected.

The other case is where we are going to do an erection job ourselves. In some instances we do this, and in that case we would order materials from southern Canada and they are delivered to a central storage point in Montreal and checked at that point.

The CHAIRMAN: I think you gave us the contractor's name?

Mr. CARTER: Tower Construction Company.

The CHAIRMAN: Tower?

Mr. CARTER: Yes.

The CHAIRMAN: Are you doing business with them now?

Mr. CARTER: Yes, we have done business with them since.

Mr. Côté: On a different basis.

The CHAIRMAN: Unless there are any further questions, we will go on to number 12.

12. LOSS OF FUEL OIL FORT MCPHERSON NWT—Fuel oil storage facilities and an associated pipe line system for delivering oil to government departments and a few private consumers at Fort McPherson are operated by the Northern Canada Power Commission on behalf of the Department of Northern Affairs and National Resources. In December 1963 a main valve in the trunk line used to move oil from dockside to the main storage tank was left open in error permitting 33,674 gallons of oil, valued at \$9,150, to enter a pipe line leading to the premises of a consumer and to be lost due to a defect in that pipe line. The Commission issued a billing for the loss to the Department of Northern Affairs and National Resources and has since been reimbursed the amount of the loss which has been charged to the 1964-65 departmental appropriation (Vote 45) for Northern Administration.

Mr. HENDERSON: In this case, a two-inch diameter pipe line had been connected to a main trunk line for the purpose of enabling fuel oil to flow into the premises of a private consumer at Fort McPherson.

It is not clear to us how, when or why the two-inch pipe line was connected in this way, but, at all events, a valve in the line failed to function, with the result that 33,000 gallons of fuel oil worth \$9,150 were lost.

As the facilities at Fort McPherson were operated by Northern Canada Power Commission on behalf of the department, the commission, although presumably responsible for the loss at the time, billed the department for the loss of \$9,150. The department, in turn, paid up, charging it to its 1964-1965 departmental appropriation for northern administration, Vote 45.

The CHAIRMAN: Why did the department pay the commission?

Mr. Côté: The Northern Canada Power Commission in this case is an agent of the department.

The CHAIRMAN: Is it a privately owned agent?

Mr. Côté: No. It is a crown corporation of which I happen to be the chairman.

The CHAIRMAN: Who owns the pipe line?

Mr. Côté: The pipe line is owned by the Department.

I think briefly the situation is this: There is storage tank up the hill, a four inch pipe line to fill it from the water, and we arranged to have several two-inch pipe lines in various government areas, and two, one to the Hudson's Bay Company and one to Mr. Krutko, for their own uses as they are fairly heavy users in that community. What happened was that after the oil had been pumped to the storage tank the valve at the storage tank was not closed and locked apparently. The two-inch pipe line which had been built by Mr. Krutko off the four-inch pipe burst at a given moment, probably by earth movement, and there was a loss of oil to his means. At the moment there is a likelihood of a law suit against the Northern Canada Power Commission and a counter claim

which may be filed by the Northern Canada Power Commission when this case is set down for trial.

Mr. SCHREYER: Mr. Chairman, who is filing a law suit?

Mr. CÔTÉ: Mr. Krutko. The oil went into his premises and contaminated his shop.

The CHAIRMAN: So it is a case where we have not seen the last bill?

Mr. CÔTÉ: It is possible. Let me put it this way: if it is found that the Northern Canada Power Commission is responsible, they will have to pay the bill.

Mr. SCHREYER: And, also, Mr. Chairman, were there two private consumers?

Mr. CÔTÉ: The Hudson's Bay Company and Mr. Krutko.

Mr. SCHREYER: Was it by individual metering, or how was this arrangement done?

Mr. CÔTÉ: I think this was by metering.

Mr. MUIR (*Lisgar*): Why would the two-inch valve be open if it were a metering job?

Mr. CÔTÉ: Well, the top valve should have been locked.

Mr. MUIR (*Lisgar*): I beg your pardon?

Mr. CÔTÉ: The top valve at the tank should have been locked and it was not.

Mr. MUIR (*Lisgar*): I see. But you still have the two-inch pipe leading off the four-inch pipe which was also open. Why should it be open?

Mr. CÔTÉ: Well, you would normally open that when you would need to supply the various customers.

Mr. MUIR (*Lisgar*): But you just do not let it run out. Would it not have to have a valve on it?

Mr. CÔTÉ: It had a valve up top and you would have a valve at this other place.

Mr. MUIR (*Lisgar*): And they were both open. This seems strange.

Mr. CÔTÉ: As the top one was open, the bottom one was not apparently, and it broke at about that area, on Mr. Krutko's property.

Mr. HENDERSON: Paragraph 103, page 65, deals with inadequate accounting and financial control procedures at Fort Smith, N.W.T., and reads as follows:

103. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.* The Department of Northern Affairs and National Resources has established headquarters for the administration of the Mackenzie District of the Northwest Territories at Fort Smith. The headquarters for one of the three regions into which the District has been divided for administrative purposes is located in the same community.

In 1964 we made a preliminary study of activities centered at Fort Smith to obtain first-hand information of the framing of a program of

audit for the combined district and regional office, and to reach a decision regarding the extent to which the expansion of departmental activities in the North now required field audits in the area. An examination in June 1965 disclosed the following serious deficiencies in the accounting and financial control procedures:

1. Internal control over cash receipts was lacking in that one employee was permitted to receive and record receipts, maintain or have access to accounts receivable ledgers and to have custody of the pre-numbered forms used for billing purposes.
2. Departmental invoices were not subject to review and approval by unit heads before release. Collection and follow-up action respecting accounts receivable was inadequate. Numerous outstanding accounts dated back to 1961 and at March 31, 1965 accounts outstanding for more than one year totalled \$23,300, which was \$8,100 in excess of items in the same category at the preceding year-end. Credit for additional services had been extended to debtors with long overdue accounts.
3. The Fort Smith office performs accounting and collection services for the Department of National Health and Welfare. Unpaid invoices in respect of services performed for patients at a local clinic and at nursing stations at other points are turned over to the Department of Northern Affairs and National Resources for recording and collection action. Since no control account was being maintained over the accounts receivable ledger, individual ledger cards could be misplaced or lost without this becoming evident. Although the recording of receipts was up to date at the time of the audit, billings had not been posted since the end of April 1965. Even on this basis, a listing of the outstanding accounts totalled over \$25,000. It was evident that appropriate action was not being taken to effect collection of old accounts and comparatively few individuals to whom credit was extended for medical services were settling their accounts.
4. The Department has been authorized to sell electric power, produced from its own generating plants or from facilities operated by the Department of Transport, to private consumers in remote locations where alternative sources of supply are not available. Administration, meter readings, billings and collections for this service in areas other than Fort Smith have been largely delegated to area officers. In our opinion, centralized control over these matters is desirable and the necessary steps should be taken to effect this at the regional headquarters.
5. Billings and collections for sewer and water services at Fort Smith have been handled by the Department, although the municipality was expected to assume responsibility in the matter on July 1, 1965. Meter readings and billings were found to be considerably in arrears. In June 1965 private consumers had been billed for services only to February 28, 1965. Even with the arrears in billings, outstanding accounts amounted to more than \$17,000 on June 15th. Internal accounting control was inadequate in that there was no control

account over the individual accounts and the employees concerned with billing and the handling of cash had access to these accounts. We were later informed that the municipality did take over the service on July 1, 1965 and that the outstanding accounts had been reduced to \$1,160.

6. Motor vehicle license plates issued initially from Fort Smith are sold at a number of locations. No accounting of unsold plates on hand at the year-end is made to Fort Smith and we were informed that many are sold to collectors for a nominal amount after the expiry date. The lack of internal control does not provide assurance that all revenue from this source is brought to account.
7. Although instructions are that a departmental officer take a physical inventory of liquor at the Fort Smith store at the end of each month, our June examination showed that the latest such count had been made on March 31, 1965.
8. The settlement of outstanding accounts payable was considerably in arrears, with delays of several months being not uncommon.

On October 18, 1965 we were informed by the Department that a serious view had been taken of our report and that steps to meet the criticisms had already been initiated. The Department advised us that the majority of the problems result from insufficient staff in Fort Smith. Many employees unfortunately have had to be hired on a casual basis and consequently our turnover has been quite high. For some months now we have been working to correct this situation through recruitment of senior financial officers.

Although operations at Fort Smith are unique in that both district and subordinate regional activities are centered at the one location, the conditions revealed by our examination indicate clearly that the audit coverage of northern points, which has been very limited, will have to be extended as soon as this can be arranged.

I should tell the members of the Committee that some 18 months ago when an audit office representative was established for the first time in Edmonton, he visited the district headquarters of the department at Fort Smith in the Mackenzie District. There is also a regional office of the Department located there, the other two in the Mackenzie District being at Yellowknife and Inuvik. Thus far it has not been possible for us to visit these other two locations although, as I will mention in a moment, we expect to shortly.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I interrupt for a moment? If I read these correctly, paragraph 135 is the only one in which Mr. Baldwin would be interested. I do not see any reason for keeping him around, so perhaps we could deal with that item first.

Mr. HENDERSON: Paragraph 135 is on page 86, Mr. Chairman, and it reads as follows:

135. *Cost of "dead-freight"*. The Department of Transport conducts an annual Arctic re-supply operation which includes the making of arrangements for transportation, stevedoring and other shipping services for other government departments and agencies on a recoverable basis.

In April 1964 the Department called for tenders for the carriage of specified tonnages of cargo from Montreal to northern ports with the proposed loading dates scheduled for July 1964. The offer that was accepted quoted rates based upon "the minimum figures as shown in the request for tenders".

When the goods were loaded at the scheduled sailing time in Montreal, it was apparent that the total cargo was about 1,115 tons, or 21.5% less than what had been originally contemplated, of which 990 tons represented a short-shipment by the Department of Northern Affairs and National Resources. The total shortage represented a "dead-freight" charge of \$67,000, a figure which was ultimately reduced to \$44,000 through concessions made by the shipping company. Of this latter amount, \$33,000 was charged to a Department of Transport appropriation in the current year and the balance to the following year.

This matter was discussed, as you will recall, on June 28, The note here describes what took place in 1964 when the Department of Transport conducted its annual Arctic re-supply operation. There were 1,115 tons, or 21.5 per cent less cargo than had been contemplated, and this cost \$67,000. However, the shipping company made a concession and it was reduced to \$44,000 of which \$33,000 was charged to the Department of Transport appropriation in the current year and the balance to the following year. This was done in spite of the fact that 990 of the 1,115 tons represented a short shipment by the Department of Northern Affairs and National Resources.

In approving this payment to the shipping company the treasury board said it did not specifically wish to direct the departments responsible for this change to make restitution from their own appropriations. Instead the Ministers felt it would be more appropriate if the officials of the Department of Transport took the matter up with the Department of Northern Affairs and arrived at some arrangement satisfactory to both parties.

I told the Committee at the last meeting that we have made inquiries in both the Department of Transport and the Department of Northern Affairs to see whether the matter had been approached in accordance with this suggestion. However, there is no indication that any such approach was ever made. You shared our opinion, at the last meeting, that this should be undertaken not only to put the cost where it belongs, but to serve as an incentive to the department responsible to avoid such poor planning in the future. It was for this reason that Mr. Côté and his associates were invited to come before the Committee today and explain it.

The CHAIRMAN: Do you have any questions?

Mr. MUIR (*Lisgar*): I was just wondering, sir, who the person is in your department that is responsible for being short 990 tons on his estimates. Is he a mathematician or a guesser?

Mr. CÔTÉ: Mr. Chairman, the deputy minister carries the responsibility. The fact of the matter is that we have to make up our figures to shipments northward some time in January or February. We estimated something close to 6,000 tons would be required that year. The tender calls made on our behalf by the Department of Transport have to be made fairly soon in the season, and we put up our requirements close to 6,000 tons.

This freight has to be on the docks ready for loading before July. In that particular year we did not get our 6,000 tons on the docksides on time.

We have to get housing, which is knocked down housing, and packaged, apart altogether from common freight, and any other construction materials supplied by southern Canada suppliers, and the contracts for them do not always come through as we expect them to. In this particular case, on the specific date we were short close to 990 tons in Montreal in early July when the ships were ready to sail. We did get the bulk of the remainder there from the other suppliers across Canada within about two weeks after the sailing. We had to pay additional freight to get it north, but there was a reduction by the shippers taking this into consideration.

I think by and large that is the story there, Mr. Chairman.

Mr. MUIR (*Lisgar*): This was a private shipping company?

Mr. CÔTÉ: It was a private shipping company, and some from the Department of Transport.

The CHAIRMAN: Following Mr. Muir's question, you said it did arrive on the dock two weeks late though to catch the boat?

Mr. CÔTÉ: The vessel in question, yes.

The CHAIRMAN: It was two weeks late to get on this vessel. So what did you do with it then? Did you send it on another vessel?

Mr. CÔTÉ: Yes.

The CHAIRMAN: So we have added cost over and above that?

Mr. CÔTÉ: This is correct.

The CHAIRMAN: I am surprised the Auditor General missed that one. It is not very often he misses one like that.

What would that amount to approximately? What did you pay for the goods which were late arriving?

Mr. HENDERSON: There was value received for the second shipment, so it would not have fallen into the non-productive category.

Mr. FORBES: I think the Chairman is looking for a job as the Auditor General!

Mr. CÔTÉ: There was a net added cost, Mr. Chairman, of \$120,000.

The CHAIRMAN: That is \$120,000 for what missed the boat?

Mr. CÔTÉ: Yes, sir, about 600 tons.

The CHAIRMAN: That is for the entire 6,000 tons?

Mr. CÔTÉ: No, for 600 tons. Instead of being close to \$100 a ton, at that late season it comes to something close to \$200 a ton.

Mr. NOBLE: Mr. Chairman, could I ask if a special trip was required to take this last shipment?

Mr. CÔTÉ: Yes.

Mr. NOBLE: Solely for the purpose of taking what had missed the first boat.

The CHAIRMAN: So, Mr. Noble, you have to add \$44,000 to \$120,000 making a \$164,000 of the taxpayers' money.

Mr. CÔTÉ: Less \$60,000 which you would have paid anyway; you would have paid \$60,000 at \$100 a ton.

Mr. SOUTHAM: Mr. Chairman, was there any recourse back to the original contractors or suppliers who were late in getting these goods to the docks?

Mr. CÔTÉ: No, sir.

The CHAIRMAN: Your question, Mr. Southam, is, if the goods are not on dock at a certain time is there a penalty clause?

Mr. SOUTHAM: If I were to deliver this stuff I would assume it would have to get there at a certain date so that it could catch this original shipment.

The CHAIRMAN: And if it is not delivered on time, is there a penalty.

Mr. F. A. G. CARTER (*Director, Northern Administration Branch, Department of Northern Affairs and National Resources*): We do provide, as far as possible, sir, for penalty clauses in our contracts. However, in a number of cases the amount of time we have left between the time when Treasury Board approvals for the award of contracts, and so on, have been received and the time of the actual shipping dates is so tight that no contractor would accept the contract on that basis. Very often the contractors are simply promising to do their best and they do usually come through. However, in this particular year we had a series of projects where we were late starting for a variety of reasons or late getting approvals on there, and therefore we simply missed the boat. We really could not blame the contractors in these cases. They were delivering generally within the sort of reasonable limit that would have been expected.

Mr. MUIR (*Lisgar*): Is this sort of procedure still continuing? Do you still miss the boat with part of the equipment? Is there any way that you can arrange this so that there will be no recurrence?

Mr. CARTER: It might help if I just outlined briefly the total way we look at this.

The 6,000 tons, which is the total estimated shipment for that year, is made up of a vast variety of materials and supplies. Probably a quarter of it would be made up of prefabricated buildings of one sort or another. This material is ordered, as far as possible, away ahead of time, and in ample time to reach the docks. In some instances, because our designs are not finished in time, because of pressures of workload, or one thing or another, we simply do not get the tender calls out early enough, or there may be delays in obtaining approvals for the contracts.

At any rate, we have to predict, as Mr. Côté mentioned earlier, in the months of say, January and February, how good we are going to be on our performance in all these hundreds of different projects. We come up with the total which would be required if we hit at 100 per cent. We then automatically cut this back by something in the order of 10 per cent. For instance, in that particular year the estimate of the total to go was around 7,000 tons. We asked for 6,000 tons of space. In practice we fell, as you see, well short of that.

Mr. CÔTÉ: At that time.

Mr. CARTER: At that time.

Mr. CÔTÉ: At that specific moment, but we came close to 6,000 tons.

Mr. CARTER: Oh, in terms of what we eventually ordered, yes. I might mention that in previous years we had quite a good record. The Department of Transport assured us today, for instance, in going back over their records that prior to this year our record generally had been good. But we have been building up very rapidly in terms of the total size of the operation. For instance, for the following year 1965, the total tonnage was close to 9,000, and while we have not received the final figures on that year from the Department of Transport, it looks at the moment as though we will have a shortfall of something like 500 to 600 tons, which perhaps in an estimating situation like this is not too bad because if we do not make allowance for this we would then end up having to ship late at a much more expensive price.

The CHAIRMAN: Mr. Schreyer is next, and then Mr. Forbes.

Mr. MUIR (*Lisgar*): Mr. Chairman, I just have a supplementary question.

The CHAIRMAN: Fine.

Mr. MUIR (*Lisgar*): The Department of Transport, I suppose, being the richer of the two departments—now I may be wrong on this—do you feel they can pick up the tab for your shortfalls?

Mr. CARTER: I see no reason why they should pick it up at all. I believe we should pay it. That was simply the arrangement which was made at that particular time. Certainly, in the new format of estimates it would undoubtedly be charged to us.

Mr. CÔTÉ: We would prefer that it be charged to us to get the real cost of all our operations as we are getting closer to a more integrated cost accounting.

Mr. MUIR (*Lisgar*): Well, that answers my question.

Mr. SCHREYER: Mr. Chairman, would the department not have realized the net saving if they had arranged to pay demurrage charges and have the vessel held over?

Mr. CÔTÉ: You cannot do that on northern shipping, Mr. Chairman. This comes into the terms of the contract, the ice conditions, and the insurance rates.

Mr. SCHREYER: The fact of the matter is that a vessel did leave subsequently?

Mr. CÔTÉ: It did, but the charges are a good deal higher; they are almost double, and the demurrage charges would come, I should think, for two weeks demurrage on a fleet or several vessels, very high.

Mr. LEBLANC (*Laurier*): Would the fact that there is perishable food on the vessel affect the situation?

Mr. CARTER: There is a good deal of food, but not perishable.

Mr. CÔTÉ: There might be potatoes and things like that.

Mr. FORBES: In moving this freight north do you let the freighting by contract?

Mr. CÔTÉ: The Department of Transport is our shipping agent in that regard.

Mr. FORBES: This is an interdepartmental arrangement.

Mr. CÔTÉ: Correct.

Mr. FORBES: So you do not have the privilege of letting a contract to some other vessel such as they do in the hauling of grain and so on?

Mr. CÔTÉ: No. There are so many other departments involved, such as health and welfare, the RCMP, the CBC, public works, and every other department, that it is far better to have it channelled through one department, namely the Department of Transport. We have been well served that way.

Mr. FORBES: And do they keep their rates, say, consistent with other freighting rates going to the north?

Mr. CÔTÉ: Perhaps Mr. Baldwin could reply to that question.

Mr. BALDWIN: The arrangement involved, Mr. Forbes, is a combination of the Department of Transport ships and private ships. We obtain the private ships by tender call if we are chartering a whole ship, or pay the standard commercial rates if we are only buying tonnage on a ship. In so far as goods moved on our own coastguard vessels are concerned we charge the equivalent of the going commercial rate as established by the tenders.

Mr. FORBES: All right. Thank you.

The CHAIRMAN: Just one final question, and then we will move on. Would you not have had some inclination that you were going to be short of this stuff on the docks in July, and could you not have contacted your private transporter to say this stuff is not going to be on dock, and saved yourself some money?

Mr. CARTER: By that time, Mr. Chairman, it would have been much too late because the contract would have been entered into for several months. The latest date at which we could, as it were, opted out of the contract would probably be about May 1.

The CHAIRMAN: I see.

Mr. NOBLE: Mr. Chairman, I would like to ask one question. Would this space which you had reserved to take this extra tonnage, which you did not have on the dock, be utilized by anybody else? If so, would you be charged for it?

Mr. CÔTÉ: No; if some other department had filled it up there would be no charge to the department. I gather if there is a shortfall of less than 10 per cent, there is no charge, and after that there is a charge for the full amount. So far as we can see, there is not one for this last year and we hope there will not be one for this year.

The CHAIRMAN: Well, the Committee hopes so too.

Mr. Baldwin, I do not think you are involved in any of these other matters. If you and Mr. Tilley wish to leave, it will be quite in order. Thank you for coming.

Now we will proceed to page 65. We only have three items here and then we will be finished.

Mr. HENDERSON: I will carry on, Mr. Chairman. As I was saying to you with respect to paragraph 103, this examination disclosed a number of serious deficiencies, details of which are given in the eight items running from the bottom of page 65 to page 66.

The note concludes by saying that the department took a serious view of the matters brought out. I understand since they wrote this last fall it has been possible for them to dispatch some new personnel into the Mackenzie district and also into the Arctic district, the headquarters of which are located in Ottawa. Actually I believe five of these new accountants are located in Fort Smith.

Now, in order that you may be in a position to question the witnesses about these eight points on an as up-to-date basis as possible, Mr. Chairman, we made some inquiries as to the present status of these points and it might be helpful if I just ran over them quickly.

The first one having to do with internal control over cash receipts—that is No. 1 at the bottom of page 65—so far as we have been able to ascertain there has been little change in this situation, but perhaps Mr. Côté could add further information about it when he speaks.

With respect to no. 2, we understand invoices are now being reviewed and approved before release, and also that follow-up action has been improved. However, it appears that the Department of Northern Affairs and National Resources is going to be faced with having to write off numerous old accounts here. Again Mr. Côté may have more precise particulars. We also understand that credit for additional services is not being granted now until overdue accounts have been paid.

With respect to item No. 3 at the top of page 66, it appears that as of May 5 this year the Department of National Health and Welfare is looking after its own accounts at Fort Smith; that is to say, it is performing its own accounting and collection services. Presumably it too has been successful in recruiting accountants and has established an accounting unit at Fort Smith; whereas in the past this was all undertaken by the Department of Northern Affairs.

However, all of the accounts outstanding and unpaid up to this date of May 5 are still left with the Department of Northern Affairs to collect. It is a situation which strikes me as being rather unrealistic. It will also be noted that when making our examination in June 1965, billings had not been posted since the end of April 1965. There appears to be little improvement in this situation, but again Mr. Côté and his associates can probably update you.

With respect to item No. 4, the point made here in our note is that no over-all or centralized control appears to have been exercised from the district headquarters in Fort Smith. While we understand this situation is unchanged, there has been local or regional control exercised, that is to say, from the regional office in Fort Smith and from the regional office in Yellowknife and Inuvik. It is our understanding that this has been strengthened in the past year.

With respect to item No. 5, the comment on this paragraph can probably be disregarded because, as stated in the last sentence, the municipality took over the service last July.

With respect to item No. 6; we understand the situation surrounding the issuance of motor vehicle licence plates is being remedied on the basis whereby an annual reconciliation will be effected at the district office at Fort Smith.

Concerning item No. seven, we understand there has been little improvement in this situation, although we have been informed that a physical inventory was taken on May 31 last, and that the officers are currently working on one as of the end of June. I need hardly emphasize that unless an effective physical check is kept on an inventory of this type, and it is done at regular intervals, substantial losses can be incurred.

Finally, with regard to item No. 8, we understand at the present time there are no accounts unpaid which are over 60 days old. We are also advised that the regional offices at Yellowknife and Inuvik have been provided with funds on an imprest basis so that they can make prompt payments directly.

There are a number of other points I have about our future auditing plans, Mr. Chairman, but perhaps Mr. Côté would like to deal now with what I have said.

The CHAIRMAN: In order to get the right perspective on this, I would like to ask, Mr. Côté, if in your department you have an audit department.

Mr. CÔTÉ: No, sir, not an audit department as such. There is the Auditor General who reports to Parliament, and this is outside the Department obviously, and there is the comptroller of the treasury who does a pre-audit of accounts.

The CHAIRMAN: Does he have a man in your Department?

Mr. CÔTÉ: There is a whole comptroller of the treasury section there.

The CHAIRMAN: In your department?

Mr. CÔTÉ: Attached to our Department.

The CHAIRMAN: And how many would there be in that department?

Mr. CÔTÉ: In head office I think there should probably be—

The CHAIRMAN: No, I mean just in your department.

Mr. CÔTÉ: In head office of our department?

The CHAIRMAN: Yes.

Mr. CÔTÉ: There are probably no less than 50. There are some in the regions serving various areas of the department; Halifax, Edmonton, Fort Smith; there are probably something like 18 at Fort Smith.

The CHAIRMAN: Are they responsible to the comptroller of the treasury, Mr. Balls?

Mr. CÔTÉ: Correct.

The CHAIRMAN: And their duty is to see that the finances of your department are handled in a proper way and proper systems set up, et cetera?

Mr. CÔTÉ: This is correct.

The CHAIRMAN: Then my next question would be: How would you set up this Fort Smith bookkeeping system in a manner described here by the Auditor General, and let it get into such a state of affairs when you have these people in the department whose responsibilities would be to set-up a good system, a good department, and to see that things were properly arranged?

Mr. CÔTÉ: The comptroller of the treasury does a pre-audit.

The CHAIRMAN: Who set up the system in the north for you?

Mr. CÔTÉ: We set up our system of accounting. I think the accounting system should be kept clearly distinct from the audit function. We as a department have the responsibility for accounting, under the new plans being worked out under the Glassco Commission where the deputy minister is to assume more responsibility. I would hope that eventually the internal audit which is done should not be on a pre-audit basis, but on a post-audit basis, thereby not eroding the responsibility of the various officers. That is a point of philosophy, I think, in that subject which is coming about.

Now, you asked the pertinent question, how could the department allow this matter to get into this state?

The CHAIRMAN: Or why was it not set up properly in the first place.

Mr. CÔTÉ: It was set up properly. I would comment that two factors intervened. One, the austerity period, and this does cover this whole area here where our staffs were not allowed to be replaced until we got down to 85 per cent of the establishment—this was in 1962-1963.

The CHAIRMAN: That went on for how many months?

Mr. CÔTÉ: Oh, it was on for a year and a half, Mr. Chairman. Northern administration was hit very seriously and their staff came down to a point of being about 70 per cent of the establishment. Now, in Fort Smith, in particular, we had a grave difficulty in recruiting clerks and accountants. When I took office in July, 1963, this was the first thing that struck me, that we were behind in the payment of our accounts. At that time we received special authority from treasury board to get 14 clerks in one fell swoop. But the level of classification was not sufficiently high, and it took us at least 16 months before we were able to recruit people. In fact, we only got the competent people on the ground in January of this year.

I think the position at a given moment at Fort Smith was that we had about three of our accounting staff there, and the staff of the comptroller of the treasury was numbering then something like 15. I enlisted the aid of Mr. Balls, the comptroller of the treasury, to have them supplement our forces, and in fact take over our functions for a period of time. He did this on two occasions while we were trying to recruit staff. By and large, I think that the comments of the Auditor General are correct, but they do reflect the fact that we did not have the people to do the job. I think probably as a department—and hindsight is always very helpful—we did try to discharge the mandate put upon us by getting the teachers out, the social workers, the engineers and not the sufficient supporting staff with them.

Since I have taken office I have made it quite clear that if there are three programs with 15 persons and supporting staff, rather than cut the supporting staff off the bottom by five, if we are not allowed a staff of five, we will cut off one whole program. But we must have the supporting, administrative and clerical staff at a sufficient level to discharge the responsibilities.

I came across the point that our accounts at one moment were in arrears of \$2 million. Well, no government, no business, can operate that way. The accounts in arrears now are running in the order of \$400,000 to \$500,000; they are down four-fifths. At the moment—contrary to what the Auditor General has said—there are still a few over 60 days. But the majority are within 60 days,

and I will be content when these accounts are no more than 30 days outstanding. I have no real concern if the outstanding accounts go up to \$1 million provided they are current.

The CHAIRMAN: Are there any questions?

Mr. MUIR (*Lisgar*): With regard to section 3, I was wondering why your department takes the responsibility of collecting the amount included there for health services. I am particularly interested in this because you have some outstanding accounts totalling approximately \$25,000. This may be for the indigents, or is it? You may never collect them.

Mr. CÔTÉ: It may be a mixture of everything, and I am sure that the doctors do not like collecting their own bills, and if they had an outside collecting agency all the while they would prefer that.

Mr. MUIR (*Lisgar*): But why would the Department of National Health and Welfare not do it?

Mr. CÔTÉ: This is what is being arranged now, and we are assisting them in collecting the back accounts.

Mr. MUIR (*Lisgar*): Now, what type of people are you dealing with here? Are you dealing with white persons, Eskimos, or Indians?

Mr. CÔTÉ: There would be very few Eskimos in this area. There would be some Metis, some Indians, and others of European descent.

Mr. MUIR (*Lisgar*): Would you consider that some of these people are unable to pay for their medical services?

Mr. CÔTÉ: I must say I would have to look into this particular question before I replied to that, Mr. Chairman. But if they are welfare cases, I should think that that case would not arise.

The CHAIRMAN: Are there any other questions?

Mr. CÔTÉ: You said you felt a system had been set up all right, but it was a matter of not being able to staff this system and carry it out. It says here that no control was being maintained over the accounts receivable; in other words, there was no control figure. Well, I would not say that that was a good system; that was not set-up too good.

Mr. CÔTÉ: Well, Mr. Chairman, I would not say it was a perfect system. I think it was a good system. I do not think we are able to discharge all the things we should do.

The CHAIRMAN: Well, I think we should talk with Mr. Balls in this regard; it is his responsibility.

Mr. CÔTÉ: Yes, I would welcome this.

With respect to systems as they then were, I think that increasingly the responsibility is mine. That is to say, since 18 months ago we have been reorganizing ourselves according to the recommendations of the Glassco Commission and strengthening the total administration of the department with financial and management advisers at my elbow and in the branches. Now, while the comptroller of the treasury may set-up a system, that is to say, the forma of the reports, the deputy minister has the responsibility for good

accounting within his department. I would not like to pass this responsibility to Mr. Balls in that sense.

Mr. HENDERSON: Mr. Chairman, I would like to record my agreement with what Mr. Côté says. It is a subject which we have discussed on several occasions. I think he is perfectly right that the sooner he can set up an effective internal audit team on his staff to get out to check these various locations the better. It is an essential tool. This is a very good illustration of what a good internal audit team could do if it were serving him in his function under the new concept of management which treasury is seeking to introduce into the departments.

I would hope that this Committee will recommend greater speed in getting these internal audit groups together because there is a big job to be done.

Now, in this particular case the comptroller of the treasury has a staff, and I think Mr. Côté said there were some 18 at Fort Smith. In addition to that, I understand he has been auditing Fort Smith each year; he has been sending his audit services branch people up there. In addition to the resident treasury people, he also carries out auditing services and his people have been going up annually.

Some of the points I have raised here, they have themselves raised in the past when they visited Fort Smith. But I do not believe that the audit services branch of the comptroller of the treasury has as yet done anything in respect of the Arctic District principally because they have not been asked to do it by the Department of Northern Affairs. I think Mr. Côté is planning to ask them, but in the meantime, if he has his own internal audit team, they can at least go in and check up.

I believe they have two regional offices in the Arctic namely at Frobisher Bay and Churchill, and they also have two subregional offices at Fort Chimo and Great Whale River. So there are four quite important points to be visited. My officers have not been there either, we plan to go there. But Mr. Côté should have this team going there, even if it is composed of only two or three people from his headquarters, who can get out and make more frequent visits than my officers can make. I have no doubt that as a result of such visits there will be many points that will come to their attention which management could fix up promptly before finding their way into my reports.

Mr. CÔTÉ: Nevertheless, they will be in the report of the internal auditor, and management will have to take cognizance of them in just the same way as the report to the Auditor General.

Mr. HENDERSON: We always call for the reports of these internal auditors in order that we can see what they are finding, the frequency of their trips, and in that way we can tailor-make our own approach. We can perhaps not do as much, or perhaps we should be doing twice as much. But the first thing we consider is what internal auditing they have because that governs how much we should be doing.

Mr. CÔTÉ: I hope as time goes on the deputy minister will be able to correct internal audits and weak spots which he sees coming about. The department is establishing a separate section called "management audit". This is a small team of people who are to be my eyes and ears, and to go abroad—throughout the department and in the field—to see that the policies set out are being translated,

in fact, at the far end affecting personnel, management, material, and have a look at the financial side, but they are not to be experts on the financial side. If somebody from the management audit looks at that given area and sees there is something which does not look at all well to him regarding the financial side, he is to report promptly to me and I will get an internal auditor out to do the real check. This is the new system which is being developed under the Glassco Commission and our department is putting it into effect now.

The CHAIRMAN: Shall we move on to paragraph 104?

104. *Inadequate control of stores at northern locations.* In its report on "Northern Affairs", the Royal Commission on Government Organization pointed out that the relative isolation of the North made it essential that departmental operations be integrated in a number of matters, including supply and materials management.

One of the first areas to be considered for integrated operations was Frobisher Bay, N.W.T., where a committee, on which all government departments and agencies with interests in the area were represented, reviewed common services and recommended divisions of responsibility. One conclusion reached was that the Department of Northern Affairs and National Resources should take over the operation of a consolidated stores set-up to meet requirements for supplies. The planning in that regard initially contemplated the procedure becoming effective in November 1964, but although April 1965 was later regarded as a more practicable date, consolidation has not yet been possible. The primary reason for the situation is that preliminary surveys showed that the control and management of the Department's own stores was such that the value of the inventory could not readily be determined, and in this circumstance the Department was in no position to undertake the added responsibility of management of stores for other departments. Furthermore, an assessment of the situation made it apparent that management and control had been inadequate for several years.

Stockpiling of stores is necessary in the North for a number of reasons, including the short shipping season, transportation difficulties and climatic conditions. In 1960 the Department sought authority to operate a revolving fund for the purpose of acquiring and managing stores of its Northern Administration Branch. Vote 574 of Appropriation Act No. 6, 1960, provided this, with the amount to be charged to the fund at any time not to exceed \$500,000. Of this amount, \$300,000 was allocated for operations centered at Fort Smith and, effective April 1, 1962, \$200,000 for Frobisher Bay. Almost immediately it became apparent that the amount provided for Frobisher Bay was inadequate. The value of stores on hand (including a substantial quantity of obsolete and unusable items) which was to be a first charge against the revolving fund was in excess of the amount authorized, even after a decision was made not to bring certain materials within the fund. Nevertheless, action to increase the fund or at least to have the obsolete and unusable items deleted was not taken. Since the fund was not sufficient to finance operations, supplies were purchased and stockpiled from appropriations. In July 1964 it was stated that the stores operation at this locale was "on

a more businesslike basis" and "well under control" and that an inventory taken a few months previously had produced a valuation of \$309,000.

However, when arrangements were being made to take over the stores of other departments at Frobisher Bay, it was found that control was still lacking. Not only were the officially recorded stores not capable of verification but considerable quantities of construction and other materials, which had come into the possession of the Department following the withdrawal of the American defence forces of the Strategic Air Command or which had been abandoned by contractors had not been taken on charge and their value was not known. Arrangements were made to have an officer of the Department of Defence Production visit Frobisher Bay in January 1965 to survey the situation and to make recommendations for proper stores handling. Acting on the resulting report, stores specialists were engaged to make a complete physical inventory, catalogue the stock, reconcile stock records and reorganize the stores layout. This undertaking is not expected to be completed until November 1965. The Management Analysis Division of the Civil Service Commission was also requested to study present procedures, design a stores system to meet the requirements of the area and prepare a procedure manual for the guidance of employees. The results of this study became available to the Department in August 1965 and implementation of recommendations is now under way.

Reference has been made above to the stores operation at Fort Smith. The examination in June 1965 referred to in paragraph 103 disclosed weaknesses in inventory control at this establishment also. The results of a physical inventory of stores undertaken by departmental personnel in October 1964 but not yet completed, made even the approximate accuracy of the amount of \$164,000 charged to the revolving fund extremely doubtful.

Mr. HENDERSON: This note deals primarily with two locations, namely Frobisher Bay in the Arctic district, and Fort Smith in the Mackenzie district. I will refer first of all to the situation in Frobisher Bay.

The department has, as we understand it, been giving leadership in the area of consolidating and controlling stocks and stores generally for all government departments and agencies having supplies at northern locations. However, as described in the second paragraph, it will be seen that consolidation had not been achieved up to a year ago, that is in April 1965. I would mention, as stated in the next paragraph that \$200,000 of the revolving fund was allocated for Frobisher Bay. However, as stated in the note, the physical inventory taken to check this produced a valuation of over \$300,000.

I understand that quite recently a number of departmental personnel visited Frobisher Bay to recheck this situation and they again returned with an inventory valuation of this level or something like \$100,000 more than was allocated in the first place. This, to say the least, is an unusual situation, but we are informed that it was due to the fact that the department has taken over considerable quantities of construction and other materials following the withdrawal of United States forces from this area as well as material left behind by the contractors. However, we shall be examining this situation in more detail shortly at first hand.

With reference to the stores situation at Fort Smith, which we have just been discussing, it will be noted from the last paragraph of this audit note on page 68, that the results of a physical inventory of stores undertaken by departmental personnel in October 1964, but not yet completed, made even the approximate accuracy of the amount of \$164,000 charged to the revolving fund extremely doubtful. Frankly we do not know where this situation stands at the present time. It appears that a physical inventory was taken in October 1965, and on the basis of an intradepartmental memorandum dated March 3, 1966, we note that the results of that physical inventory are said to: "disclose a wide discrepancy of \$68,189 between the physical count and the book value of the revolving stores accounts".

We have sought to ascertain where the difference lies, that is to say, was the physical count greater or the book value greater. Frankly, it has not been possible for us to obtain this information. We believe this matter is, therefore, still outstanding. Perhaps the deputy minister could bring us up to date on these points.

Mr. CÔTÉ: I will ask Mr. Carter to speak specifically to the point, but I would say as regards Frobisher there was very little notice indeed. In July 1963 the strategic air command of the United States Air Force pulled out and left us with an \$8 million building which would cost, with the ancillary structures, something in the order of \$800,000 to operate per annum. The government decided to retain this facility, because there is a very excellent airport there, as a centre of administration for the Baffin land.

When the minister looked at that he was very concerned about the various departments and lack of co-ordination. He gave instructions to immediately start co-ordinating within the various departments. We did establish an inter-departmental committee at Frobisher for the co-ordination of various matters on the ground, and brought the various departments into the federal building and started bringing in the stores, which were in eleven buildings at least, into three general areas which were left by SAC, and took into stores at that time a large amount of material left over. This is the sort of general situation which arose there.

I should say one more word, and that is that we have had inquiries into this store situation which were carried out by other departments. It was helpful, but it is not helping to solve the problem. It is only since we got our financial and management structure beginning to be in place commencing in January of last year that we are beginning to get the people on material and supply who are knowledgeable in this field and who can really give a continuing look at this, and operate stores in a proper manner. There is a very large inventory there, and I am very concerned that on inventories which may be \$600,000 the government, in fact, is paying five per cent and more interest per annum on these stores. But we must get stores controlled through the departmental resources to operate them efficiently and in a knowing way. I would now ask Mr. Carter to speak to this.

The CHAIRMAN: Mr. Carter, it is 6.15 and I do not keep the Committee too long. I wonder if you could just synopsise the situation pretty well.

Mr. CARTER: Yes, Mr. Chairman. I am not sure there is much I can add to what Mr. Côté has already said.

So far as Frobisher Bay is concerned, this again has been a question right from the beginning of lack of staff to undertake the kind of work necessary. It has only been within very recent times that we have been able to put in the staff required to do the job. This has been compounded at Frobisher by the move out of SAC, by the need to consolidate physically all of the stores; and we ourselves, at the time of this physical consolidation which had to take place in order to save fuel for heating buildings, this sort of thing did not even know what we had let alone what we were taking on. So at this point in time where, for instance, we have an inventory which says we had \$329,000 worth of goods, materials, and so on, in our stores at Frobisher, we do not know how much of this was, we will say, an original effective charge or revolving fund or how much was simply goods brought in.

At any rate, we do know what the situation is today and obviously we have to adjust the revolving fund to match what we have found, and from this point on manage it properly and bring it down to whatever is the proper level of inventory for Frobisher Bay.

At Fort Smith much the same situation has prevailed. The store staff there was seriously depleted through the period of austerity. As a result, during that period records were not kept on all sorts of things. The work sort of went on. We have been trying to pick up the pieces since. I think we are well on the way towards picking up the pieces.

Mr. LEBLANC (*Laurier*): I would imagine at Frobisher Bay it would be rather easy to keep the stockpile down because you have quite a good aircraft system there. You also have a good airport there too.

Mr. CÔTÉ: Mr. Chairman, I hope that instead of the annual resupply on everything else except bulk stores such as oil and light, that the time is not far removed when we can get large aircraft coming in on a continuous basis which can resupply and thereby cut down the inventories and the cost. It does not have to be in the competitive range. It does not appear at the present moment as though it is competitive.

The CHAIRMAN: It would appear that stockkeepers are the people you are in short supply of.

Mr. CARTER: That is right, sir. One of our perpetual difficulties, if I might say, is in attempting to get sufficiently high ranks for these positions to attract people with intelligence to do the job.

The CHAIRMAN: Well, in 1963-64 there were a lot of unemployed people in Canada; the National Employment Service offices had lots of them on their books. Was there any attempt made to get these people?

Mr. CARTER: Of course, in 1963 and 1964 we were in the austerity period.

Mr. CÔTÉ: Well, actually 1962-63, not 1964.

Mr. CARTER: That is right. In 1964 we were coming out of it.

Mr. CÔTÉ: What we have been trying to do since that time, and with some measure of success, through the agreement with the Civil Service Commission, is that we are moving towards positive recruitment and putting people on recruitment under their auspices. This is becoming more effective. Last year we were recruiting about 15 people per month. At the rate at which we were going

last August it appeared to me that it would be 22 months before we recruited the staff we needed. At the moment there is an attrition loss, but in the month of May we had 122 recruited, that is including job offers out. However, with an attrition rate of 43, there is a net of about 80 positions. On this basis we should be up to strength, if there were no attrition, in 10 months. It is a matter where the departments have to move in more aggressively to recruit their personnel with the Civil Service Commission.

Mr. SOUTHAM: Mr. Chairman, could I ask Mr. Côté whether, due to the fact that this problem in recruiting people for these positions does exist in the far north the civil service pay bureau allocates a higher wage scale as an incentive, or is it on the same basis as we have here in the south?

Mr. CÔTÉ: It is the same wage scale but with northern allowances, so there is that differential. Where we really have had a problem is that you would be allowed, on classification, a clerk grade II, when you really required a clerk grade IV, or something of that order. We require more competent people at the higher level—

Mr. SOUTHAM: Well, the reason I asked the question is this: If your department is working under a handicap I am just wondering what we can recommend as a committee to overcome this problem. I heard the Minister say the other morning on the Northern Affairs Committee that if he were a young man he would certainly go north. This is our northern frontier and the opportunities are there. But are we providing an incentive for these people to go up there, and leave this part of the country?

The CHAIRMAN: Perhaps, the question should be, Mr. Southam, what would a clerk grade IV be paid, and what would the northern allowance be? What salary would a stockkeeper receive plus his allowance?

Mr. CÔTÉ: The salary for a clerk grade IV would be about \$5,000, and he would probably receive an allowance of \$1,000, depending on location. However, I may say, Mr. Chairman, in this regard, that the statement which the Minister made the other day attracted quite some considerable public interest. I think he has received something in the order of 250 letters since that statement was made from people who want to serve in the north, and this is most encouraging from our viewpoint.

The CHAIRMAN: What is a stockkeeper's salary?

Mr. CARTER: This would depend, sir. For instance, in the store at Fort Smith we might have a storeman grade I, grade II, grade III, grade IV, and so on. A storeman's grade IV salary, if I remember rightly, would be something in the order of \$5,500.

The CHAIRMAN: Plus \$1,000?

Mr. CÔTÉ: Plus possibly \$1,000.

The CHAIRMAN: I cannot understand why you cannot get people at that money. I suppose the climate may have something to do with it.

Mr. CÔTÉ: The climate may have something to do with it, but if you are asking for a clerk grade IV—you think this is what you need there—you receive authorization for a clerk grade II by the commission. This has been the real

problem, but I think it is being solved. However, in the longer term, in a place such as Frobisher, I think what will really pay off is for the development of private industry in that sector, and the continuous supply of fresh food and the like by airplane throughout the year. Then you do not have large inventories to maintain.

Mr. NOBLE: Mr. Côté, on what basis would you take over the material which was left by the Americans?

Mr. CÔTÉ: For free.

Mr. NOBLE: You got it for the taking. Well, that is good.

Mr. CÔTÉ: But, it creates these accounting problems which are real. It is net accretion, and if the revolving fund is as high as the Auditor General has indicated, indeed, instead of \$500,000, we may have taken on at the present moment something like \$700,000 or \$750,000. I think a good deal of that was free material.

Mr. FORBES: Mr. Côté, you were talking about the classification of clerks. Do I take it from what you say that the civil service are too rigid on their classifications.

Mr. CÔTÉ: I think they have been, and I recognize their problem because they have been short-staffed and have not been able to process these sorts of classifications. This is now being decentralized in the administrative support categories we have been speaking of, and I have just concluded an agreement which has not been made public yet, so that the department can establish the classification according to criteria subject to audits by the Civil Service Commission, and this is what will facilitate things.

Mr. SCHREYER: You made mention of the fact that you thought some time in the near future the establishment of private industry in the areas would help the department to deal with this problem of inventory control?

Mr. CÔTÉ: No, not in inventory control. If a small wholesaler decided to set up at Frobisher, and to be resupplied at a competitive rate by air, we would buy locally.

Mr. SCHREYER: You are thinking in terms of the long run, not the intermediate—

Mr. CÔTÉ: Well, this may be on the cards in a very few years; I hope, myself, in perhaps three or four years.

The CHAIRMAN: Gentlemen, we are not going to discuss paragraph 114 now because we did discuss it earlier; simply to say that it was as a result of a policy decision by the Minister. The discussion dealt with whether the Department of Northern Affairs and National Resources building should be built downtown or out at Confederation Heights. That change in policy brought about this extra expenditure. I understand that in apperaing before the Committee on Northern Affairs and National Resources recently the deputy minister discussed this whole situation with the Hon. Walter Dinsdale, and anybody can refer to those minutes if they wish a complete answer on it.

Gentlemen, the meeting is adjourned. You will have notice as to whether we will meet on Thursday.

APPENDIX "8"

DEPUTY MINISTER OF PUBLIC WORKS

File: 422-12

OTTAWA 8, June 24, 1966.

Mr. Alfred D. Hales, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. Hales:

At the meeting of the Standing Committee on Public Accounts, May 31, 1966, I undertook to answer the questions asked of this Department or to submit further information to the Committee as required after reviewing the transcript of evidence. I believe the following provides the answers to the outstanding questions.

Auditor General's Report 1964, Page 173, Item 20, Non-Productive Payment—Income Tax Computer Centre—Ottawa

Attached as Appendices "A" and "B" are photostatic copies of the confirmation letter from the International Business Machines Company Limited and the Air Conditioning Requirements extracted from the original specifications as submitted to the Department of National Revenue.

Auditor General's Report 1964, Page 175, Item 27, Non-Productive Payment—Unused Office Space—Halifax, N.S.

- (a) In answer to Mr. Tardif's question, I wish to report that prior to consolidation of the Department of Finance offices which led to the rental payments on vacant space at #3 Artillery Place, the Finance staff was disposed of as follows:

#3 Artillery Place	— 2,355 sq. ft.	rented space @ \$9,490 p.a.
Ahearn Avenue	— 2,625 sq. ft.	Crown-owned which had a rental value of \$5,250 p.a.
Camp Hill Hospital	— 1,600 sq. ft.	Crown-owned which had a rental value of \$4,000 p.a.
<hr/>		
6,580 sq. ft.		— Total — \$18,740 p.a.

The offices were consolidated in 5,500 sq. ft. of space in the Crown-owned Ralston Building which had a rental value of\$16,500 p.a.

The space vacated in the Crown-owned building was immediately re-assigned to other Federal Government use.

- (b) In reply to your question as to whether the vacated space was put in the hands of a real estate agent, the answer is that the matter was left in the hands of C. D. Davison and Company, the Lessors,

who are large real estate holders and act exclusively as real estate agents.

Auditor General's Report 1964, Page 175, Item 29, Non-Productive Payment—Federal Building—Kentville, N.S.

In answer to your question concerning previous experience with this consulting architect, I am attaching, as Appendix "C", a list of the jobs given to him prior to the Kentville Federal Building and the one job that has since been awarded to him.

Auditor General's Report 1965, Page 73, Para. 116, Modifying Heating Plant—Mackenzie Building—Toronto, Ont.

In answer to Mr. Schreyer's question as to what happened to the coal-burning apparatus in the Mackenzie Building, I wish to advise:

- (a) that the boilers in this installation will continue to be used with the new gas-fired system;
- (b) that the stokers and grates have been removed and stored in the Mackenzie Building. The Department is in the process of declaring this portion of the equipment surplus through Crown Assets Disposal Corporation, having ascertained that it could not be utilized in some other Government facility.
- (c) that the ash removal equipment is being retained for future use in another Crown building.

I should like to take this opportunity to again thank you for the courtesy which you and your Committee extended to me during the two sessions.

Yours sincerely,

Lucien Lalonde.

Atts.

APPENDIX "A"

INTERNATIONAL BUSINESS MACHINES COMPANY LIMITED

218 Laurier Avenue West, Ottawa 4, Ontario

CEntral 6-2323

DECEMBER 12, 1961.

Mr. A. K. Mills
Assistant Chief Architect
Building & Construction Branch
Department of Public Works
Sir Charles Tupper Building
Dear Mr. Mills:

We wish to confirm that the original power and air conditioning specifications which we discussed regarding National Revenue Computer Building, will be completely adequate for any IBM Computer System that we will be proposing to the Department of National Revenue.

We would be pleased to discuss these requirements with you, should you find it desirable.

If we can be of any service in the meantime, please do not hesitate to call on us.

Yours very truly,

W. H. Thomson,
Representative.

W. H. Thomson/ml.

APPENDIX "B"

PHYSICAL INSTALLATION REQUIREMENTS

1. Air Conditioning Requirements

The total air conditioning requirements for the National Revenue System and 1401 Systems is approximately 15 tons in total. The estimated additional room load for air conditioning is 10 tons. Therefore it is recommended that 30 tons of air conditioning be provided.

2. Weight—1401 Systems

1401E3	—	2023 lbs.
1402-1	—	1300 lbs.
1403-2	—	750 lbs.
1406-1	—	350 lbs.
1011-1	—	980 lbs.
7330-1	—	650 lbs.

3. Power Requirements—1401 System

All 1401 components require 208 volts, AC, 3 phase, 4 wire, 60 cycle power. For further details of individual component power requirements please refer to 1401 PHYSICAL INSTALLATION MANUAL, which should be considered as part of this proposal.

4. Weight of National Revenue System

RSDP 1407-1	—	10,200 lbs.
RSDP 1407-2	—	5,100 lbs.
RSDP 1407-3	—	1,350 lbs.
729-IV	—	750 lbs.

5. Power Requirements—National Revenue System

All components require 208 volts, AC, 3 phase, 4 wire, 60 cycle power. Further details as to the specific requirements of individual components will be supplied upon request.

The total data processing system is within the specifications related to the Department of National Revenue and the Department of Public Works earlier this year.

APPENDIX "C"

LESLIE R. FAIRN

Consulting Architect

Halifax, N.S.

- | | |
|--|----------------------|
| 1934— <i>Federal Building, Amherst, N.S.</i> | |
| Contract & Extras were \$132,482 | Fee was \$ 6,624 |
| 1951— <i>Seismograph Station, Halifax, N.S.</i> | |
| Contract & Extras were \$ 24,158 | Fee was \$ 1,208 |
| 1955— <i>Pilot Plant Laboratory, Dalhousie
University Alts., Halifax, N.S.</i> | |
| Contract & Extras were \$ 38,283 | Fee was \$ 2,003 |
| 1960— <i>Federal Building, Kentville, N.S.</i> | |
| Contract & Extras were \$363,391 | Fees were \$19,987 |
| 1964— <i>Federal Building, Annapolis Royal, N.S.</i> | |
| Contract is \$148,750 | Fee will be \$ 8,181 |
| (Contract awarded on May 6, 1966) | |

APPENDIX "9"

THE ST. LAWRENCE SEAWAY AUTHORITY
ADMINISTRATION DE LA VOIE MARITIME DU SAINT-LAURENT

Majestic Building,
396 Cooper Street,
Ottawa 4, Ontario.

May 24, 1966.

File: 3-11-4-1

Mr. Edouard Thomas,
Clerk,
Public accounts Committee,
House of Commons,
Ottawa, Ontario.

Dear Mr. Thomas:

Further to my letter of May 20th, I am enclosing herewith 40 copies of a Report relative to the acquisition of land from Lally-Munro Fuels Limited at Cornwall. The Report also provides additional information requested by the Committee in connection with the construction of an oil pipeline by the Company in 1956.

Also enclosed, for the purposes of the Committee, are copies of material documents and correspondence as compiled from Department of Transport and Authority files by our Chief Land Agent. To avoid delay, the copies of documents and correspondence are being furnished as they were received in this office on May 20th.

Yours very truly,

THE ST. LAWRENCE SEAWAY AUTHORITY,
Pierre Camu,
President.

Enclosures

ACQUISITION OF LALLY-MUNRO LAND
AT CORNWALL—PIPELINE EASEMENT

By Expropriation Plan No. 51399, filed on April 1, 1955, the Department of Transport acquired 52 acres of land situate north of the Cornwall Canal at Cornwall, Ontario, which land would be required in the event that an All-Canadian Seaway were to be proceeded with. Included in this area were 6.276 acres of land which had been owned by Lally-Munro Fuels Limited.

The Department offered compensation to Lally-Munro in the amount of \$96,593.77. The Company indicated that only a much higher amount, including damages for business disruption, would be acceptable on a voluntary basis. When negotiations broke down, the land in question was restored to the Company by Notice of Abandonment No. 54897, filed on February 14, 1956.

As a general principle and certainly on the basis of hind-sight in this case, it is difficult to justify the abandonment of property which will have to be re-acquired at a future date. However, in this case there appears to have been special circumstances which led the Department to believe that the re-acquisition when the land would actually be needed could be effected more advantageously.—The restoration of the land to the Company was apparently regarded as relieving from the business disruption claim, which would have to be faced unless the Company were granted a lease of the expropriated land for a guaranteed term of 20 years, and this was regarded as totally unacceptable.

In the Fall of 1956, the Company constructed a 96,000-barrel storage tank on the land which had been restored to it. Of course, it had every right to do this. At the same time it constructed a 6" oil pipeline to connect the tank to a small pier on the bank of the Cornwall Canal. The pipeline is on the surface and is located on the Lally-Munro land, which had been restored, and on canal land which the Department had leased to Hy-Trous Company of Canada Limited (a fertilizer manufacturer) and to Universal Terminals Limited (a fuel oil distributor). The Company had permission from the tenants to cross their leaseholds. (As a matter of fact, we believe that interlocking shareholders and directors controlled all three Companies at that time.) Nevertheless, there was at least a technical trespass, since the Leases to the tenants in question precluded any erections on the properties, without approval, and reserved the right of the Department to license third-party use of the land. In any case the Department does not appear to have been aware of it.

As of April 1, 1959, the administration and control of canal lands in Cornwall was transferred from the Department to The St. Lawrence Seaway Authority. At that time, negotiations for the purchase of the Lally-Munro property had already been initiated, and they were continued by the Authority. However, the matter was allowed to drag, since there was then no present need for the land and the 1956 hope of re-acquiring the land at a lesser cost could not be realized, until August 27, 1963, when the Authority approved the purchase of the land for a price of \$281,673.91, which included approximately \$132,000.00 for the oil tank, pipeline, etc., which had been installed in 1956. It is material that at this time general interest in the All-Canadian Seaway had been renewed and Lally-Munro was considering further improvements to its operation, so that the Authority could reasonably apprehend that further deferment might only enhance the value of the land even more.

At the time of the Authority's appearance before the Public Accounts Committee, senior Authority officers were not aware of any dialogue between Lally-Munro and the Authority in connection with the pipeline installation. However, since May 10th a record has been uncovered which indicates that the matter was discussed by the President of the Company and Mr. R. M. Rouleau, a former employee of the Cornwall Regional Office, in June 1962, and that Mr. Rouleau advised the Company that no further documentation was necessary.

The pipeline problem first came to the attention of senior Authority officers at the time of the settlement of the purchase of the land from Lally-Munro, and, even without knowledge of the acts of our Regional employee, the matter was considered as amounting to a mere technical irregularity. The matter has now been regularized under the terms of Authority Lease No. 64-346 to

Universal Terminals Limited, who are now leasing the 96,000-barrel storage tank and the pipeline at an annual rental of \$9,600.00.

Copies of all material documents and correspondence relative to the acquisition of the Lally-Munro land and to the matter of oil pipeline, as compiled by our Chief Land Agent from Departmental and Authority files, are being furnished to the Public Accounts Committee herewith.

May 24, 1966.

APPENDIX "10"

OTTAWA, July 7, 1966.

PUBLIC ACCOUNTS COMMITTEE

Question by Mr. Leblanc (Laurier) July 5, 1966:

- 1. What is the total number of employees of the Auditor General's Office at June 30, 1966?
- 2. How many are Canadian citizens by birth and their classification?
- 3. How many are Canadian citizens by naturalization and their classification?
- 4. How many are not Canadian citizens and their classification?
- 5. How many employees, where the mother tongue is French, are not bilingual and their classification?
- 6. How many employees, where the mother tongue is English are not bilingual and their classification?
- 7. How many employees are bilingual and their classification?

Answer: (Auditor General's Office)

1.	205.			
2.	S.O. 2	2	Technical Officer 10	1
	Audit Director	5	Administrative Officer 4	1
	Auditor 5	12	S.T. 8	1
	Auditor 4	3	S.T. 6	7
	Auditor 3	16	S.T. 5	1
	Auditor 2	22	S.T. 3	4
	Auditor 1	40	S.T. 2	3
	Audit Assistant 4	28	Principal Clerk	1
	Audit Assistant 3	20	C.R. 5	1
	Audit Assistant 2	2	C.R. 2	2
	Audit Assistant 1	3	Storeman 1	1
			Confidential Messenger	2
				<hr/>
				178
				<hr/>
3.	Audit Director	1	Auditor 1	8
	Auditor 4	1	Audit Assistant 4	1
	Auditor 3	3	Audit Assistant 3	1
	Auditor 2	3	C.R. 2	1
				<hr/>
				19
				<hr/>
4.	Auditor 5	1	Audit Assistant 3	3
	Auditor 1	3	Audit Assistant 2	1
				<hr/>
				8
				<hr/>

5. All employees with French as their mother tongue are bilingual.

6.	S.O.	2			
	Audit Director	6	Technical Officer	10	1
	Auditor 5	10	S.T.	8	1
	Auditor 4	2	S.T.	6	6
	Auditor 3	13	S.T.	3	4
	Auditor 2	21	S.T.	2	2
	Auditor 1	26	Principal Clerk		1
	Audit Assistant 4	15	C.R.	5	1
	Audit Assistant 3	12	C.R.	2	2
	Audit Assistant 2	1	Storeman	1	1
	Audit Assistant 1	3	Confidential Messenger		1
					<hr/>
					131
					<hr/>

7.	Auditor 5	3	Audit Assistant 2		2
	Auditor 4	2	Administrative Officer	4	1
	Auditor 3	6	S.T.	6	1
	Auditor 2	4	S.T.	5	1
	Auditor 1	25	S.T.	2	1
	Audit Assistant 4	14	C.R.	2	1
	Audit Assistant 3	12	Confidential Messenger		1
					<hr/>
					74
					<hr/>

DEC

DEC 7 1966

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OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

PROCEEDINGS

No. 21

THURSDAY, OCTOBER 13, 1966

Public Accounts, Volumes I, II and III (1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

INCLUDING FOURTH, FIFTH, SIXTH, SEVENTH AND EIGHTH REPORTS
TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Racine,
Mr. Schreyer,

Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker,
¹Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

¹Replaced Mr. Gilbert on July 13, 1966.

ORDER OF REFERENCE

WEDNESDAY, July 13, 1966.

Ordered,—That the name of Mr. Winch be substituted for that of Mr. Gilbert on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORTS TO THE HOUSE

MONDAY, October 17, 1966.

The Standing Committee on Public Accounts has the honour to present its

FOURTH REPORT

1. Your Committee held meetings on May 25, May 26 and May 31, 1966 in the course of which the following officers were in attendance:

From the Post Office Department:

Mr. C. Dazé, Acting Deputy Postmaster General
Mr. J. A. MacDonald, Comptroller
Mr. E. W. Jay, Director, Budgets Branch
Mr. F. Pageau, Director of Postal Rates and Classification Branch
Mr. G. S. McLachlan, Assistant Director of Postal Rates and Classification Branch
Mr. J. B. Gaunt, Acting Director of Postal Service
Mr. R. J. Cousens, Assistant Director, Transportation Branch

From the Department of Public Works:

Mr. Lucien Lalonde, Deputy Minister
Mr. G. B. Williams, Assistant Deputy Minister—Operations
Mr. G. T. Jackson, Assistant Deputy Minister—Administration
Mr. J. A. Langford, Assistant Deputy Minister—Design
Mr. J. C. Richard, Executive Assistant to the Deputy Minister
Mr. A. K. Mills, Acting Chief Architect
Mr. S. C. Ings, Chief, Contracts Division
Mr. G. Millar, Chief Engineer, Harbours and Rivers Engineering Branch
Mr. C. D. Stothart, Special Projects Section
Mr. W. W. Ryan, Construction Section
Mr. G. T. Clarke, Chief Engineer, Development Engineering Branch
Mr. H. M. Millar, Chief, Technical Co-ordination and Development Division
Mr. D. A. Freeze, Director of Property and Building Management
Mr. G. I. Cameron, Financial Services
Mr. W. H. Dumsday, Director of Information Services
Mr. P. Sorokan, Chief, Legal Services
Mr. L. P. Boyle, former Financial Adviser

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
Mr. George Long, Assistant Auditor General
Mr. D. A. Smith, Audit Director
Mr. H. G. Crowley, Audit Director

Mr. J. M. Laroche
 Mr. E. W. Murphy
 Mr. F. A. Dixon

2. The following is a report on the work done by your Committee at these meetings.

3. In the course of its meetings your Committee gave consideration to:

- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
- (b) the following paragraphs in the Reports of the Auditor General:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Comments on Expenditure and Revenue Transactions—		
Post Office Department	77 to 79	105 to 111
Department of Public Works	80 to 82	112 to 123
Departmental Operating Activities—		
Post Office activities	168	218
Non-Productive Payments—		
Department of Public Works	Appen- dix 2, items 13 to 31, 34, 35	Para- graph 142, items 8 to 15

POST OFFICE DEPARTMENT

4. Second Class Mail

The problem of the loss suffered by the Post Office Department in the handling of mailings by publishers of newspapers and other periodicals (second class mail) has concerned the Committee for a number of years, the last recommendation on the subject having been in the Committee's Fourth Report 1963, presented to the House of Commons on December 19, 1963.

The Committee notes that whereas the Post Office Department's transactions recorded in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1965 showed an excess of revenue over expenditure of \$20,030,000, this financial result did not take into account other expenditures estimated at \$35.8 million and other revenues estimated at \$4.3 million. If this unrecorded expenditure and revenue had been taken into the accounts, the operating deficit of the Post Office Department for the year ended March 31, 1965 and would have been \$11.5 million instead of the excess of revenue over expenditure, or surplus, shown at \$20,030,000 for the year.

The Committee also notes that if the loss incurred by the Post Office Department from second class mail had been recaptured, it would have more than covered this operating deficit of \$11.5 million for the 1965 fiscal year. In 1956-57 postal revenues from second class mail were \$6 million, with the Post Office Department estimating the cost of handling it at \$24 million. Seven years later, or in 1963-64, these revenues had increased to slightly over \$8 million

while the cost of handling it was estimated by the Post Office Department to have exceeded \$43 million, resulting in a loss of \$35 million. The Committee regretted that no figures were available on May 25, 1966 showing the size of losses incurred on second class mail in 1964-65 or in 1965-66.

The Committee feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind however the need of assistance to small independently owned newspapers circulating in rural areas.

5. Departmental decision not to dismiss an employee

The Committee reviewed the action of the Department in rescinding the suspension of an employee who had falsified his accounts. The employee, having reached 60 years of age, was permitted to retire, with a consequent entitlement to an immediate annuity under the provisions of the Public Service Superannuation Act.

While appreciating that this action was taken by the Department on the understanding that the employee would reimburse the Crown for the amount of the deficiency in his accounts, and which he did, the Committee believes that the Department should have conformed to the requirements of the provisions section 59(3)(a) of the Civil Service Act as a result of which the employee's entitlement to a superannuation benefit, other than a return of contributions, would have been conditional upon a decision of the Treasury Board.

6. Postage stamps destroyed

The Committee was disturbed to learn that approximately 53 million stamps costing \$16,000 (printing costs) of a special 1964 Christmas issue of 412 million stamps had been destroyed because the Department overestimated the demand for these stamps which were dated "Christmas 1964".

Department officers assured the Committee that changes had been introduced designed to present similar losses in future.

7. Charges for Post Office lock boxes and bag service

The Committee noted that certain Post Office patrons with a heavy volume of mail had lock boxes rented although these would not hold all the mail being received and bag service was being provided to the patron without additional charge. Such patrons are thus being provided with a free service which is not available to other patrons and in some instances lock boxes are tied up which could be used by other patrons. The Committee understands that the Post Office Department has been trying to solve this problem and it insists that the Department expedite its efforts in this connection with a view to having patrons pay equally for services rendered to them and to releasing wherever possible lock boxes which are required by other patrons.

8. *Post Office Savings Bank*

The Committee noted that the Department was currently giving consideration to changes required in order that unclaimed balances in the accounts of the Post Office Savings Bank may be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled.

The Committee concurs in this action and insists that the Department bring the matter to a conclusion as soon as possible.

DEPARTMENT OF PUBLIC WORKS

9. *Cost of little-used railway spur line, Pointe-au-Père, Quebec*

The Committee tried to find out from officers of the Department of Public Works why that Department had proceeded with the construction of a railway spur line at a cost of \$401,000, not including the cost of trackage for which an annual rental of \$4,169 is payable to the Canadian National Railways by the Department of Transport.

The Committee was informed that the Department had asked the Canadian National Railways to provide the spur line at its own expense but that the C.N.R. had refused, stating that the expenditure could not be justified by the business which would result. Only four carloads were handled on the spur in 1962, none in 1963, seven in 1964, 25 in 1965, and 123 in May and June, 1966 because of the longshoremen's strike in the St. Lawrence ports. The Committee does not regard the increased use of the spur line in May and June, 1966 as being indicative of an increasing requirement for this facility.

The Committee is shocked that public money should be spent with so little concern for the value to be received. It is relieved to note that the Treasury Board policy has since been changed to require new tracks at new wharves to be installed only at the request and expense of a railway with the railway determining whether the traffic involved would justify such consideration. The Committee insists that this policy be strictly adhered to in future.

10. *Non-productive expenditures*

In the course of its examination of the witnesses from the Department of Public Works, the Committee considered 44 cases set out in the 1964 and 1965 Reports of the Auditor General to the House. Most of these involved expenditures for which no benefit was received or dealt with costs which were regarded as excessive. The facts surrounding each case were reviewed in detail by the members of the Committee with the Deputy Minister and his officials for the purpose of learning the causes and reasons for each expenditure.

The causes underlying some of these cases show them to have been due to circumstances beyond the control of the Department of Public Works. On the other hand, evidence given at the meetings indicated other causes, namely failure by the Department to exercise normal commercial prudence in entering into contractual obligations and ineffective departmental specifications. It was also evident that in a number of instances additional costs had been incurred due to inadequate co-ordination both within the Department and between departments at various stages of construction. The Department was unable to pinpoint responsibility for many of the additional costs.

The Committee was concerned to find a further factor present in many of the cases, namely the seeming inability of the Department to resist pressures in settling borderline claims. The Committee feels the Department has emerged as an easy target for contractors and others with claims for special dispensation.

In light of the cases discussed and evidence taken, it is the opinion of the Committee that substantial savings of public funds could be achieved if the Department were to adopt a consistent and tougher line in resisting claims requesting special dispensation.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 9, 10 and 11*) is appended.

Respectfully submitted,

WEDNESDAY, October 19, 1966.

The Standing Committee on Public Accounts has the honour to present its

FIFTH REPORT

1. The following is a further report on the work done by your Committee and relates to the meetings held on June 2 and June 7, 1966 at which the following officers were in attendance:

From the Department of National Revenue—Customs and Excise Division:

- Mr. R. C. Labarge, Deputy Minister
- Mr. J. G. Howell, Assistant Deputy Minister—Operations
- Mr. A. R. Hind, Assistant Deputy Minister—Customs
- Mr. G. L. Bennett, Assistant Deputy Minister—Excise
- Mr. J. W. Langford, Director General of Administrative Services
- Mr. M. J. Gorman, Director of Excise Tax Audit
- Mr. A. P. Mills, Director of Excise Tax Administration
- Mr. P. P. Last, General Executive Assistant

From the Auditor General's Office:

- Mr. A. M. Henderson, Auditor General
- Mr. George Long, Assistant Auditor General
- Mr. H. G. Crowley, Audit Director
- Mr. J. M. Laroche, Assistant Audit Director

2. In the course of its meetings your Committee gave consideration to:
- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
 - (b) the following paragraphs in the Reports of the Auditor General relating to the Department of National Revenue—Customs and Excise Division:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Comments on Expenditure and Revenue Transactions	69 to 76, inc.	90 to 100, inc.
Comments on Assets and Liabilities	120	169

DEPARTMENT OF NATIONAL REVENUE
Customs and Excise Division

3. *Full payment of duties under Customs Act*

The Committee noted the action taken by the Department concerning the licensing and taxing of a coastal vessel which action was contrary to provisions of the Customs Act and the Canada Shipping Act.

In expressing its disapproval of the methods followed in this case and in particular the action of the Department in penalizing its own Collector for its failure to collect the duty in full and then causing the penalty to be remitted, the Committee considers that such action was irregular and undesirable in principle. The Committee is of the opinion that if departmental action of this kind is to be countenanced, then any section of any Act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act.

4. *Departmental practices which lack statutory sanction*

The Committee considers that a government department should not initiate or take any action that is not authorized by Parliament even though it contemplates that Parliament may eventually take action to provide that authority. It considers that the actions of government departments must be limited at all times to the legislative authority existing at the time the action is taken. When circumstances require that action be taken by Parliament, the steps necessary to initiate such action should be taken promptly.

In its Eighth Report 1964 the Committee recommended that four practices being followed by the Customs and Excise Division should receive statutory sanction if they are to be continued. The Committee is pleased to note that two of these practices, namely release of goods under customs collector's permission and duties and taxes on surplus United States Government property sold in Canada, were given statutory sanction by amendments to the Customs Act approved by the House in 1965.

The Committee is most disturbed that no attention has been paid to its 1964 recommendations and reiterates the following recommendations which were

(i) Sales of goods unclaimed at Customs—

That the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(ii) Determination of 'sales price' for sales tax purposes—

That an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

The Committee's attention was drawn to yet another practice of the Department which lacked statutory sanction. This involves the refund of duty

paid on goods diverted to use other than that for which they were imported and the Committee was informed that it was the practice of the Department to consider the original payment as "duty paid in error". The Committee agrees with the view of the Auditor General that the authority conferred by section 43 of the Customs Act is not intended to be used with respect to the deliberate diversion of imported goods to use other than that declared at the time of their entry. The Committee recommends that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported.

5. Possible loss of revenue when goods lose tax-exempt status.

The Committee noted the manner in which the Customs and Excise Division places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urges the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

6. Drawback paid on goods destroyed after release from Customs

The Committee was concerned to note that it had been the practice of the Department to recommend to the Governor-in-Council that duty, drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Governor-in-Council has since revoked the Department's regulation in the case which was discussed on June 2, 1966 where a refund of \$2,525 was made by the Department, representing a 90% drawback of customs duty paid on imported machinery which, after duties were paid and after release from Customs but before actual use, was damaged beyond repair by fire in the warehouse of the importer. The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

7. Loss on disposal of Crown-owned properties

The Committee was concerned to note that the Department disposed of various Crown-owned properties costing \$143,000 in 1950-54 at Pigeon River, Ontario, for \$8,145 in 1963 and that houses built at Coutts, Alberta, in 1953 at a cost of \$61,000 were sold for \$16,200 in 1964-65.

In the case of the houses at Pigeon River, the Committee is convinced that the requirement that the houses be moved was a factor contributing to the low price obtained. The Committee was not impressed with the reasons given by the

Department for declaring the houses surplus and retaining the land to be declared surplus after the houses had been sold for removal. It is the opinion of the Committee that the Department should have declared both houses and land surplus at the same time.

The Department advised the Committee that the dwellings at Coutts were declared surplus to requirements because of the policy expressed in Treasury Board letter of May 9, 1964 (T.B. 626000) that where government employees are no longer required to live at sites where there are government houses, "these dwellings are now surplus to requirements and should be disposed of since the Crown has no business in competing with private landlords in the rental business and the costs of administration and maintenance often exceed the low rentals collected."

The Committee does not consider that this policy directive contemplated or necessitated a 70% capital loss being taken by the Department. That there was no urgency is evident from the fact that two of the four houses were purchased by customs officers employed at the Port of Coutts and who had previously rented houses from the Department. The Committee intends to pursue this matter with Crown Assets Disposal Corporation.

8. Tax exemptions for particular groups

Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urges the Department in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

9. Customs and Excise laboratory

The Committee discussed with departmental officers the adoption of a tariff of fees to be charged for professional services rendered to importers and exporters by the Customs and Excise laboratory.

The Department expressed the view that as the laboratory was required for the work of the Department it did not consider that charges should be made even though exporters and importers did benefit from its work.

The Committee agrees with the statement made by the Treasury Board in its Management Improvement Policy circular No. MI-4-66 of April 28, 1966 that it should be departmental policy wherever economically and administratively feasible to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption. The Committee feels that in the case of appeals the Department should follow the usual practice of requiring that an appeal be accompanied by a fee to be returned if the appeal is sustained.

The Committee recommends that the Department review its laboratory operations in line with the Treasury Board's objective of promoting the earning of non-tax revenue and that it institute a tariff of fees for services rendered for the benefit of exporters and/or importers designed to cover the cost of providing those services. If the Department, after reviewing its laboratory activities, is still of the opinion that establishment of a tariff of fees is not warranted, the Committee recommends that it lay the facts before the Treasury Board seeking the Board's approval for the continuation of the laboratory as a free service.

10. *Sight entries*

In paragraph 98 of his 1965 Report the Auditor General drew the attention of the House of Commons to section 24 of the Customs Act, R.S., c. 58, and expressed the opinion that the requirements of this section were not being carried out in that the Department was granting importers extensions of time in which to complete custom entries after the time originally granted for this purpose had expired.

When asked to comment on the Auditor General's observation a departmental officer present informed the Committee that the Department of Justice had been consulted and had expressed the opinion that the Deputy Minister of National Revenue can authorize extensions either before the expiration of the time limit or after its expiration. This was the first indication that the Auditor General had had that there had been any legal opinion given with respect to this matter and as the Department did not make an opinion available, the Committee had to leave the matter unresolved.

At a later meeting the Auditor General explained to the Committee that there was in fact no written opinion of the Department of Justice and that the statement had been made by the departmental officer on the strength of a verbal opinion expressed by an officer of the Department of Justice to departmental appraisers.

The time of the Committee is wasted when conflicting or inaccurate information is given to it. In this case it considers the Department to have been at fault in not having advised the Auditor General that it had legal advice supporting the practice being followed and in leading the Committee to believe that a formal opinion of the Department of Justice was available when in fact this was not so.

The Committee requests all departments concerned with comments in the Auditor General's Report to see to it that the Auditor General is provided with full information concerning any matter reported on by him.

At the request of the Auditor General a written opinion of the Department of Justice has since been obtained, which has confirmed the Auditor General's view that the Act precludes any extension of the time appointed by the Collector after that time has expired. The Committee understands that the departmental practice has now been discontinued.

11. *Loss of excise tax*

The Committee noted how, two years after repeal of the excise tax on automobiles in 1961, press reports had disclosed how an automobile dealer, who had received refund of tax based on certification of his car inventories, had in

fact overstated his car inventories in order to deceive the car manufacturer who was financing the inventories.

The Committee was concerned to note that, when these disclosures became public knowledge, the Department made no attempt to recover the excise tax refunded on the cars which the dealer had fictitiously reported as being in his inventories at the time the refund was made. The Committee was unanimous, that this failure to act cannot be condoned and that in future the officials responsible should be called to account.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 12 and 13*) is appended.

Respectfully submitted,

MONDAY, October 24, 1966.

The Standing Committee on Public Accounts has the honour to present its

SIXTH REPORT

1. The following is a further report on the work done by your Committee and relates to the meetings held on June 9 and June 14, 1966 at which the following officers were in attendance:

From the Department of National Defence:

Mr. E. B. Armstrong, Deputy Minister
Brigadier W. J. Lawson, Judge Advocate General
Lieut. Colonel L. L. England, Judge Advocate General's Office
Mr. O. D. Turner, Assistant Director of Finance—Domestic

From the Department of Defence Production:

Mr. G. W. Hunter, Deputy Minister
Mr. S. I. Comach, Deputy Director, Electrical and Electronics Branch
Mr. S. A. Radley, Electrical and Electronics Branch
Mr. E. O. Smith, Control Systems
Mr. R. W. Andrews, Ammunition Division, Machinery Branch
Mr. E. P. Loveridge, Mechanical Transport Branch

From Defence Construction (1951) Limited:

Mr. A. G. Bland, President

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
Mr. George Long, Assistant Auditor General
Mr. J. R. Douglas, Audit Director
Mr. H. E. Hayes
Mr. J. M. Laroche
Mr. H. B. Rider

2. In the course of its meetings your Committee gave consideration to:

- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
- (b) the following paragraphs in the Reports of the Auditor General relating to the Department of National Defence:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Comments on Expenditure and Revenue Transactions	56, 60 to 66 inc., 92(1)	75, 77 83 to 86 inc., 140
Non-Productive Payments	Appendix 2, Nos. 2 to 9	

DEPARTMENT OF NATIONAL DEFENCE

3. Failure to collect moneys owing to the Crown

The Committee was concerned to note the circumstances under which medical fees totalling \$4,053 were improperly retained in 1961 and 1962 by an Air Force medical officer. Although the officer was found guilty of conduct to the prejudice of good order and discipline, reprimanded and fined in March, 1963, no action was taken by the Department at that time to recover the amount improperly retained. Neither was this attempted by the Department six months later when the officer asked for and was given his discharge. The Committee noted that the matter was not referred to the Department of Justice until August, 1964 which led to \$2,500 being collected from the ex-officer in settlement of his liability under the case.

Based on its examination of the circumstances involved in this case, the Committee is of the opinion that the Department failed to take prompt administrative action in protecting the Crown's interest. It trusts that the example of this case will result in more expeditious action in the future.

4. Pension awards effective at early age

In view of the potential savings of public money involved, the Committee gave consideration to this problem in 1963 when it asked the Department of National Defence to consider the advisability of introducing deferred pensions for servicemen similar to those available to civilian employees.

The Minister of National Defence advised the Committee in 1965 that "no decision has been taken on possible amendments to the Canadian Forces Superannuation Act pending the completion of studies undertaken following the decision to integrate the Forces which will have a bearing on those decisions". The Deputy Minister advised the Committee on June 9, 1966 that while the studies are almost complete, it will take considerable time to examine them and to come to conclusions, after which decisions will be taken on what changes, if any, would be desirable in the pension arrangements.

The Committee requests the Auditor General to continue to keep the Members of the House informed on the progress being made in the introduction of deferred pension benefits for servicemen retiring at the comparatively early ages now in effect.

5. Discretionary awards of Service pensions

The Committee continues to be concerned regarding the considerations and criteria employed by the Department in establishing reasons for release of servicemen and for the making of discretionary awards of Service pensions.

The Deputy Minister advised the Committee on June 9, 1966 that a study had been instituted as to the need for the Pension Board to review the cases and determine reasons for retirement. He said that the study had been stopped when it became evident that the Department might have to review the whole of its pension arrangements following integration. However, he indicated that it is planned to review the matter further.

The Committee remains of the opinion that it is desirable that entitlement to all pensions be specific and requests the Auditor General to continue to keep the Members of the House informed of the progress being made by the Department toward revising the present system.

6. Expenditure for which little or no value received

At its meetings on June 9th and June 14th, the Committee considered eleven specific cases of expenditure where little or no value was received by the Crown for the funds expended which together amounted to a figure in excess of \$17 million. The Committee discussed the eleven cases individually with witnesses from the Department of National Defence, the Department of Defence Production and from Defence Construction (1951) Limited.

It is not the wish of the Committee to single out any specific case, although in the matter of the Bomb Toss Computer it does recognize how equipment of this type can become obsolete even before it is ever put into use. The Committee does, however, wish to record that some of these cases demonstrate weakness in financial management. In some, the non-productive costs were the result of improper specifications having been received from other military authorities. Such costs also resulted from changes in policy and in other cases from changes in design following the award of a contract or during the course of construction. An example of non-productive costs incurred due to improper specifications is that of the signal flares which the Department of Defence Production wished to have produced in Canada. Drawings and specifications were obtained from the United States and it gradually became evident that design changes must have been authorized to the United States manufacturer and that the United States drawings had not been corrected to remove the inaccuracies. The Canadian contractor lost over 530 working days due to the processing of some 27 design changes and the associated testing of materials and components. This resulted in the quantity ordered being reduced from 7,500 to 4,920 flares and payment to the contractor of \$28,868 more than the initial firm price of \$54,304 quoted for the production of 7,500 flares.

In a number of cases where claims were made by contractors for changes over and above the agreed upon price, officers of the departments have not

demonstrated the resistance that the Committee believes the taxpayers of Canada have a right to expect from their public servants. The Committee is of the opinion that the Minutes of Proceedings and Evidence relating to these cases should be closely studied by officials of the departments and the Treasury Board in order to find ways in which financial management can be improved and costly delays avoided.

The Committee reiterates the request it made to the Auditor General a number of years ago concerning this type of loss, namely that in his future annual Reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit. It expresses the hope that the Auditor General can continue the practice introduced in 1965 of furnishing the underlying reasons in the major cases, particularly where the circumstances of the non-productive payment appeared to be beyond the control of the department or agency against whose appropriation it was charged. In the opinion of the Committee, this should enable closer study to be given to the individual cases both by those responsible and by the Members of the House and of the Public Accounts Committee.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 14 and 15*) is appended.

Respectfully submitted,

WEDNESDAY, October 26, 1966.

The Standing Committee on Public Accounts has the honour to present its

SEVENTH REPORT

1. The following is a further report on the work done by your Committee and relates to the meetings held on June 16 and June 21, 1966 at which the following officers were in attendance:

From the Department of Finance:

Mr. R. B. Bryce, Deputy Minister
Mr. D. H. Clark, Federal-Provincial Relations Division
Mr. H. D. Clark, Director of Pensions and Social Insurance
Mr. S. A. Clemens, Executive Staff Officer
Mr. H. R. Balls, Comptroller of the Treasury
Mr. W. J. Trudeau, Director, Superannuation Branch
Mr. H. W. Johnson, Director General, Accounting and Special Services
Mr. T. W. Beckett, Accounting and Special Services

From the Department of Agriculture:

Mr. S. C. Barry, Deputy Minister
Mr. S. B. Williams, Assistant Deputy Minister (Production and Marketing)

Mr. J. S. Parker, Director General of Departmental Administration
 Mr. W. R. Bird, Director of Crop Insurance
 Mr. H. S. Riddell, Director of Prairie Farm Assistance Administration

From the Board of Grain Commissioners:

Mr. F. F. Hamilton, Chief Commissioner
 Mr. W. J. MacLeod, Secretary

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
 Mr. George Long, Assistant Auditor General
 Mr. A. B. Stokes, Audit Director
 Mr. Edward Cooke, Audit Director
 Mr. L. G. Sayers
 Mr. W. A. Wanzell
 Mr. J. M. Laroche
 Mr. H. M. B. Millward
 Mr. I. A. M. Buzza
 Mr. S. R. McPhail

2. In the course of its meetings your Committee gave consideration to:
- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
 - (b) the following paragraphs in the Reports of the Auditor General relating to the Departments of Finance and Agriculture:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Comments on Expenditure and Revenue Transactions—		
Department of Finance	50, 51, 62, 92(3)	55, 57, 62, 63, 64
Department of Agriculture	46	52, 53, 54
Comments on Assets and Liabilities—		
Department of Finance	118, 119, 122, 123, 124, 125	167, 168, 170, 172, 173, 174, 175, 176, 177
Department of Agriculture	121, 127	171
Departmental Operating Activities—		
Department of Finance	170	221
Department of Agriculture	162, 163, 165, 166	212, 213, 215, 216
Special Audits and Examinations—		
Department of Finance	175, 177, 183	226, 228, 234

DEPARTMENT OF FINANCE

3. Loans and advances representing grants to Crown corporations

The Committee gave consideration to loans and advances made to Crown corporations which do not have the means to repay them or to pay interest on them unless Parliament appropriates funds for them to use for these purposes. It noted that such amounts are treated and described as loans and advances to Crown corporations, i.e., revenue-producing assets, on the Statement of Assets and Liabilities of Canada.

In its Fourth Report 1963 and Sixth Report 1964 the Committee had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. It requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing on a more realistic basis.

The Committee is disturbed to learn that not only was no such review undertaken by the Department of Finance in the case of the National Capital Commission but that the practice criticized by the Committee was continued and further extended by the Department in 1965 when the House was asked to approve loans aggregating \$14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure. The Committee noted that in the estimates submitted to Parliament for the operating requirements of this Corporation, funds to pay interest and repay principal on these loans are also included. As a consequence, Parliament is being asked to vote money twice for the same purpose.

In the opinion of the Committee, expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee is glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and will expect the latter's report thereon in due course.

4. Advance to Canadian Corporation for the 1967 World Exhibition

The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of \$40 million, of which \$20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Corporation Act, were fully paid over to the Corporation in 1965, the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommends that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that

the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directs the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of \$143 million (less \$40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

5. *Indirect compensation to chartered banks*

In its Fourth Report 1963 and Sixth Report 1964 the Committee advised the House that the arrangement existing between the chartered banks and the Government of Canada constitutes indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee again reiterates its belief that if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act.

The Committee has noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds (currently an aggregate of \$100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requests the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded.

6. *Errors in Public Service Superannuation Account pension and contribution calculations*

In its Sixth Report 1964 the Committee again expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General seven years ago in 1959) which it regards as being very serious, was taking so long to be corrected.

The Committee was advised by the Comptroller of the Treasury that immediate steps were being taken to provide that the internal auditing procedures of the Superannuation Branch include an examination of the employee's contributions in relation to his salary and the documents on file along the lines recommended by the Auditor General.

The Committee understands that the introduction of this particular check should eliminate the majority of the errors and requests the Auditor General to continue to keep it fully informed on this matter.

DEPARTMENT OF AGRICULTURE

7. Prairie Farm Emergency Fund

The Committee noted the findings and recommendations of the Auditor General arising from his examination of the transactions under the Prairie Farm Assistance Act in 1964 and 1965 and that they generally commend themselves to the Prairie Farm Assistance Administration.

The Committee believes it is important that the matters referred to by the Auditor General be rectified and recommends that appropriate legislation be introduced as soon as possible. It requests the Auditor General to keep the matter before the House and the Committee.

8. Security for recoverable grants

The Committee noted that where a portion of a grant or subsidy paid for construction purposes is repayable to the Crown under certain conditions, it has not been the practice of the Department of Agriculture to protect the Crown's equity by means of a mortgage on the property or by security in any other form.

The Committee recommends that the Crown obtain security for the recoverable portion of such grants, preferably in the form of a first mortgage. The members were pleased to learn from the Deputy Minister of Agriculture that he concurs in the desirability of such an arrangement and that he will see that this is done in future.

9. Agricultural Commodities Stabilization Account

The Committee noted that although an amount of \$57.1 million, representing losses in the Agricultural Commodities Stabilization Account, was charged to a Department of Agriculture supplementary appropriation in 1964-65, there remained in the Account at March 31, 1965 an additional \$1.3 million representing additional losses which must be charged to an appropriation in a subsequent year.

The Committee is of the opinion that losses should be charged to appropriations of the year in which they occur and recommends that the department include a sufficient amount in its estimates each year for this to be done.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 16 and 17*) is appended.

Respectfully submitted,

THURSDAY, November 3, 1966.

The Standing Committee on Public Accounts has the honour to present its

EIGHTH REPORT

1. The following is a further report on the work done by your Committee and relates to the meetings held on June 28 and July 5, 1966 at which the following officers were in attendance:

From the Department of Transport:

Mr. J. R. Baldwin, Deputy Minister

Mr. J. R. Strang, Director, Shipbuilding Branch

Mr. G. C. Tilley, Departmental Financial Adviser
Mr. H. J. Darling, Chairman, Canadian Maritime Commission

From the Canadian National Railways:

Mr. E. J. Cooke, Vice-President, Atlantic Region
Mr. D. F. Purves, Assistant Vice-President
Mr. D. P. MacKinnon, Chief of Development Planning
Captain D. C. Wallace, Marine Service Officer

From the Department of Northern Affairs and National Resources:

Mr. E. A. Côté, Deputy Minister
Mr. W. D. Mills, Executive Assistant to the Deputy Minister
Mr. F. A. G. Carter, Director, Northern Administration Branch
Mr. N. J. W. Hembruff, Financial and Management Adviser, Northern
Administration Branch
Mr. M. A. Packwood, Property, Supplies and Departmental Housing,
Northern Administration Branch

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
Mr. George Long, Assistant Auditor General
Mr. D. A. Smith, Audit Director
Mr. F. A. Dixon, Assistant Audit Director
Mr. J. M. Laroche, Assistant Audit Director
Mr. J. A. Wyatt, Assistant Audit Director

2. In the course of its meetings your Committee gave consideration to:
- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
 - (b) the following paragraphs in the Reports of the Auditor General relating to the Departments of Transport and Northern Affairs and National Resources:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Comments on Expenditure and		
Revenue Transactions—		
Department of Transport	83 to 88	127 to 137
Department of Public Works		114, 118
Department of Northern Affairs and National		
Resources		103, 104
Departmental Operating Activities—		
Department of Transport	164	214
Non-Productive Payments—		
Department of Transport	Appendix 2, items 32 and 33	
Department of Northern Affairs and National		
Resources	Appendix 2, items 11 and 12	

DEPARTMENT OF TRANSPORT

3. Financial consequence of faulty ship design

The Committee was concerned to learn that although a mistake made by a naval architect had resulted in a number of structural changes in the construction of a vessel, as a consequence of which the vessel was to cost an additional \$500,000, the architect was nevertheless paid his full fee of \$117,000. No attempt had been made to seek damages from the architect apparently because of difficulty in establishing proof of loss to the Crown resulting from the mistake.

The Committee was pleased to hear that naval architects are now required to insure themselves for errors and omissions and would urge that this policy be strictly adhered to.

4. Repairs and alterations to Canadian Coast Guard ships

The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of \$43,346 but the work actually performed under the contract amounted to \$130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommends that in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by Government auditors.

5. Defalcation at Gander International Airport

Members of the Committee were most concerned to learn that misappropriations ultimately resulting in a loss to the Crown of \$42,800 had taken place without detection over a period of twelve years at the Gander International Airport.

Officers of the Department were queried as to what internal audit was in effect and why this would not have revealed the defalcation at an earlier date. The Committee was surprised to learn that the misappropriations had not been discovered despite audits made locally on an annual basis by staff of the Comptroller of the Treasury, or the Department, and on two occasions by the Auditor General.

The departmental officers agreed that financial control procedures had been faulty and assured the Committee that changes had been made which they felt were adequate to ensure that such an unsatisfactory situation could not again develop.

6. Cost of salvaging sunken vessel

The Committee considered the circumstances surrounding an expenditure of up to \$455,000 which the Department of Transport had been required to undertake in order to recover a sunken vessel that had been abandoned by its owners, the oil cargo of which was a threat to waterfowl, marine life and coastal property.

The Committee recalled that Private Member's Bill C-202, which was given first reading in the House on June 17, 1966, sought to place the responsibility for such costs in future on the owner of the vessel, and it was interested to learn that the Department intended recommending that the responsibility for such costs be clearly established by statute when next the Canada Shipping Act is up for amendment.

The Committee is of the opinion that such costs should be the responsibility of the owner of the vessel and recommends that the Department take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future.

7. Cost of abandoned design plans for ferry vessel

The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of \$20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically states that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of \$130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of \$20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urges the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommends that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

8. *Purchase and conversion of ferry vessel*

The Committee heard from Department of Transport officers a summary of events leading up to the purchase from a Sorel shipyard in May, 1964, for the sum of \$1,513,000 Canadian funds, of a ferry vessel which had been on the market for several years.

The Sorel shipyard had an option to purchase the vessel for \$1,200,000 in United States funds and it exercised this option only after the Treasury Board had approved of the purchase of the vessel from the shipyard. At the time of authorizing the purchase, the Treasury Board had been informed that it was estimated that repairs and conversion would cost \$750,000. In actual fact the final cost of this work carried out by the same shipyard amounted to \$2,447,000.

The members of the Committee are concerned that a Canadian organization should make a substantial profit through exercising an option to acquire a ship after it was known that the Crown intended to purchase it and they wish to record the Committee's extreme displeasure with this transaction.

9. *Cost of faulty planning in ferry design*

A non-productive payment of \$55,000 resulted when the architects working on the design of a new ferry vessel were told that provision would have to be made for rail car weights in excess of those contemplated in the original planning.

The Committee closely questioned witnesses from the Department of Transport and the Canadian National Railways in an attempt to ascertain why the proper specifications had not been established before the architects were asked to commence work. There is no question in the minds of the members of the Committee that liaison between the Department and the Railways was not as good as it should have been, but due to somewhat conflicting evidence it was not possible to establish definitely with which organization the responsibility lay.

The Committee requests the Department to see to it that in future, as directed by the Treasury Board, basic data be completely verified prior to placing it in the hands of architects for the preparation of plans and specifications.

10. *Cost of "dead-freight"*

The Committee heard explanations from officials of the Department of Transport and the Department of Northern Affairs and National Resources concerning a charge of \$44,000 against the appropriations of the Department of Transport representing the non-productive cost resulting from a short-shipment of 1,115 tons on a vessel chartered to carry equipment and supplies to the North in the summer of 1964.

The Committee was informed that the shipping space was not used because of the failure of supplies to arrive in Montreal before sailing time. The Committee was also informed by officers of the Department of Northern Affairs and National Resources that to the extent possible that Department inserts penalty clauses in contracts in order to discourage tardy deliveries. In other instances, however, the time between the placing of a contract and northern shipping dates is so limited that penalty provisions will not be accepted by

suppliers. The Committee urges that a more intensive effort be made to assess requirements sufficiently in advance of shipment to ensure that the safeguard of a penalty clause can be inserted in contracts.

The Committee also found that in actual fact the short-shipment resulted in additional loss because when the goods did arrive in Montreal they were sent to the North on another ship at approximately twice the cost of shipping goods on the Arctic resupply operation.

In the opinion of the Committee the cost and responsibility of this "dead-freight" should have been borne by the Department of Northern Affairs and National Resources rather than the Department of Transport.

11. *Subsidy for the construction of a floating fish processing plant, Liverpool, N.S.*

In paragraph 137 of his 1965 Report the Auditor General explained how a subsidy of \$191,000 had been paid in connection with the construction of a floating fish processing plant and he raised the question as to whether the subsidy program was intended to provide assistance for such a project.

Members of the Committee recalled that a statement on the Government's program to assist the shipbuilding industry, issued on January 17, 1966, made it clear that floating structures which are not considered to be vessels in the orthodox sense would not be eligible for subsidy in future. The Committee agrees with this policy and presumes that under it there can be no recurrence of the situation described by the Auditor General in his Report.

DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES

12. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.*

In paragraph 103 of his 1965 Report the Auditor General outlined eight serious deficiencies in the Department's financial control procedures at Fort Smith, N.W.T. The Committee was informed by the Deputy Minister of the Department that the situation had been as stated by the Auditor General. He ascribed it primarily to the fact that the Department had experienced great difficulty in recruiting clerks and accountants for Fort Smith, partially because the level of classification was not sufficiently high. The situation had been aggravated by the fact that in 1962-63 the Treasury Board had not permitted departments to fill vacancies until strength fell to 85% of the establishment previously authorized by the Board. Furthermore, the Department had concentrated on staffing its programs in the fields of education, welfare and engineering without sufficient personnel in the supporting services.

Although the Deputy Minister felt that the system of financial control set up by the Department would have proved satisfactory if its requirements had been met, nevertheless he agreed that at the administrative level there had been inadequacies. The Committee was pleased to learn that the Department had been strengthened by a reorganization of its total administration, including the introduction of positions for financial and management advisers. The Committee suggests that the reorganization extend to the establishment of an internal audit group with as little delay as possible.

13. Inadequate control of stores at northern locations

The Deputy Minister of the Department explained to the Committee that the unsatisfactory situation insofar as stores at northern locations are concerned, as described by the Auditor General, was due for the most part to lack of adequate staff during the austerity period in 1962 and 1963 and also to the difficulty which the Department had had in obtaining authority to employ personnel at a high enough level to provide the competence which was required. The difficulties which the Department was experiencing due to these factors were compounded by the sudden withdrawal of the United States Strategic Air Command from Frobisher Bay leaving the Department with substantial additional facilities and stores to look after.

The Deputy Minister indicated to the Committee that he was very much aware of the seriousness of the situation and stated that substantial progress had already been made in overcoming the problems he had mentioned.

The Committee regards this matter as being of the utmost importance and urges the Department to establish adequate controls on all stores in the North with the least possible delay.

The Committee appreciates the willingness and frankness of the witnesses in answering questions and offering other information when appearing before the Committee.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 19 and 20*) is appended.

Respectfully submitted,

MINUTES OF PROCEEDINGS

THURSDAY, October 13, 1966.
(29)

The Standing Committee on Public Accounts met *in camera* this day at 9.45 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Winch (15).

The Committee considered interim draft reports on its meetings May 25, May 26, May 31, June 2 and June 7, 1966.

Following discussion these reports were amended, adopted as amended, and the Committee ordered the Chairman to present them to the House as their Fourth and Fifth Reports.

By unanimous consent the Committee postponed its proposed afternoon meeting until 8.00 p.m. to meet in Room 112 N.

At 11.00 a.m. the meeting adjourned.

EVENING SITTING (30)

The Standing Committee on Public Accounts met *in camera* at 8.05 p.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Bigg, Dionne, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Thomas (*Maisonneuve-Rosemont*), Tremblay, Winch (14).

The Chairman welcomed the return of the Honourable René Tremblay to the Committee following his recent illness.

The Committee considered interim draft reports on its meetings June 9, June 14, June 16, June 21, June 28 and July 5, 1966.

Following discussion the reports were amended, adopted as amended and the Committee ordered the Chairman to present them to the House as the Sixth, Seventh and Eighth Reports.

Discussion ensued respecting the possibility of the Committee visiting various government departments and the Chairman promised to investigate further.

At 9.35 p.m. the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 22

TUESDAY, OCTOBER 25, 1966
THURSDAY, OCTOBER 27, 1966

(Inspection Tour of certain Government Departments in Ottawa)

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; *From the Auditor General's Office:* Messrs. Long and Stokes; *From the Canadian Broadcasting Corporation:* Mr. J. Alphonse Ouimet, President; Mr. Guy Coderre, Vice-President (Administration); Mr. J. P. Gilmour, Vice-President (Planning).

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
¹Mr. Prittie,
Mr. Racine,
 (Quorum 10)

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

J. H. Bennett,
Clerk of the Committee.

¹ Replaced Mr. Winch on October 26, 1966.

ORDER OF REFERENCE

WEDNESDAY, October 26, 1966.

Ordered,—That the name of Mr. Prittie be substituted for that of Mr. Winch on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, October 25, 1966.
(31)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Bigg, Hales, Leblanc (*Laurier*), Le-febvre, McLean (*Charlotte*), Morison, Muir (*Lisgar*), Noble, Schreyer, Southam, Stafford, Tardif, Tremblay, Tucker (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long, Stokes and Matthews of the Auditor General's staff; *From the Canadian Broadcasting Corporation:* Mr. J. Alphonse Ouimet, President; Mr. J. P. Gilmour, Vice-President (Planning); Mr. Guy Coderre, Vice-President (Administration); and Mr. V. F. Davies, Vice-President (Finance).

The Chairman briefly reviewed the outline of the agenda planned by the Sub-Committee on Agenda and Procedure and then called on Mr. Henderson, Auditor General of Canada, who summarized the following sections of his 1965 Report assisted by his officials.

	1965 Report Paragraphs
Summary of Expenditure and Revenue	12-49
Comments on Expenditure and Revenue Transactions	
Questionable charges to Vote 15 of the Department of Citizenship and Immigration	58
Department of External Affairs mission abroad (and para. 49 of 1964 Report)	61

The Chairman, introduced Mr. J. Alphonse Ouimet, who in turn introduced his officials.

The Committee examined Mr. Ouimet and his officials respecting the following item from the Auditor General's 1965 report: Salaries and wages paid for work not performed—Paragraph 56.

At 11.10 a.m. the questioning continuing, the Committee adjourned to the call of the Chair.

THURSDAY, October 27, 1966.
(32)

The Standing Committee on Public Accounts met this day at 9.45 a.m., the Chairman, Mr. Hales, presided.

Members present: Messrs. Baldwin, Ballard, Bigg, Forbes, Hales, Leblanc (*Laurier*), Lefebvre, Morison, Muir (*Lisgar*), Noble, Stafford, Tardif, Tucker (13).

The Committee divided into groups to visit the following government departments throughout Ottawa for a briefing on control procedures by officers of the Auditor General's office and departmental officials:

Department of National Defence,

Department of Public Works,

Department of National Health and Welfare,

Taxation Data Centre.

The Committee reassembled at 11.30 a.m. for a combined meeting at the *Department of National Defence, Air Materiel Command, Rockcliffe*, for briefing on *Centralized Stores Control Procedures* by Messrs. Douglas and Cross of the Auditor General's office; Major General R. P. Rothschild and Wing Commander M. J. Cummings of Materiel Command Headquarters, Rockcliffe.

At 12.20 p.m. the Committee adjourned.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, October 25, 1966.

The CHAIRMAN: Gentlemen, we have a quorum.

This is our first fully constituted meeting, other than the meeting we held in camera, in this session of parliament. Your striking committee and your chairman propose and are most hopeful that we will complete the 1964 and 1965 Auditor General's Report. We have made a great dint in it so far but there is still a little bit to cover. With this in mind your striking committee has approved the agenda which our clerk, Mr. Bennett, is now distributing to you.

If you will just quickly glance over the agenda you will notice each day is set out. Starting with next Thursday, we propose an on the spot visit to four departments. You have all received notices of it and I trust you have indicated your preference as to which department you will visit. At each department you will be met by a member of the Auditor General's staff who will take you in hand, and show you through that department. Then we will go to the Department of National Defence at Rockcliffe for luncheon and we will have you back at 2.15, in lots of time to go into the house. So those are the plans for next Thursday. It sounds like a very interesting day for the committee.

I am not going to take time to go over these other days but they are all listed in the agenda. Please keep this before you as it lists the paragraphs that we will be discussing each day and it will also give you an opportunity to do a little homework the night before you come to the meeting in order to question the witnesses. You will notice that at practically every meeting we will have a witness before the committee and it would be most helpful if you came prepared to ask questions of the witnesses.

I might say that the steering committee and your chairman want to make these meetings as interesting as possible and the only way that we can do this is to have short, crisp, snappy answers. The steering committee have directed me that if the witnesses, including our good friend, the Auditor General, who is always co-operative, speak too long or take too much time in explaining things, it is my duty to call them to order. This I propose to do because we did have some witnesses who took altogether too long in explaining a particular case. We are here for the bare facts and figures and we do not want a whole lot of verbiage connected with it. But, we do want the facts and we want them right on the button.

If you have your 1965 Auditor General's Report with you, Mr. Henderson, we will start at page 30, if that is the first one. We are going to stop about 10.15 in order to ask Mr. Ouimet of the C.B.C. some questions. The section we will be dealing with when he is before us is to be found on page 28, paragraph 56, so you can be ready for that when he arrives.

Mr. Henderson, would you proceed.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I will certainly try to be just as brief and to the point as possible. If I am not, please do not hesitate to interrupt me—and that goes for any member of the committee. There is a great deal of material in this report and I have sought, in preparing myself for it, to condense it as much as possible.

The purpose of this discussion right now is to start in, so to speak, at the paragraph numbers in the 1965 report in respect of which we will not be having witnesses; if you feel that you would like a witness on any of the matters as I run through them quickly, as the chairman said, in the next 20 minutes, please say so. We are seeking to go through the paragraph numbers in the sequence shown on the agenda. As Dr. Davidson will be with us later, for example, we will deal with some of the paragraphs up to paragraph 12.

I propose this morning to start in at paragraph 12 on page 13 which begins the summary of expenditure and revenue which is contained in this report. This section covers paragraphs 12 to 49, inclusive.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$38 million for the year. By comparison, there were deficits of \$619 million in the preceding year and \$692 million in 1962-63.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1965, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,412 million, expenditures of \$7,218 million and unexpended balances of \$194 million.

14. Of the \$7,412 million of appropriations available for expenditure in the year, \$3,052 million was provided by continuing statutory authorities and \$4,305 million was granted by Appropriation Acts (Nos. 1, 5, 6, 8, 9, 10 of 1964 and No. 2 of 1965) while \$55 million remained available from continuing 1963-64 appropriations (Department of Labour Votes 32d and 34d).

Of the \$7,218 million of expenditure during the year, \$3,052 million (42%) was incurred under the continuing statutory authorities, with \$4,166 million (58%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the \$194 million of unexpended balances at the year-end, \$152 million lapsed in compliance with section 35 of the Financial Administration Act and \$42 million of Department of Labour Votes 6b (winter works incentive program), 8b (winter house building incentive program)

and 5d (older worker employment and training incentive program) remained available for expenditure in 1965-66 because of the special wording of the appropriations.

15. The lapsed balances of \$152 million represented 3.5% of the \$4,360 million of appropriations under Appropriation Acts. This compares with lapsed balances at the close of the preceding year representing 4.1% of the amounts available in that year and 2.3% of the amounts appropriated in 1962-63 under interim supply Appropriation Acts and by Governor General's special warrants. In the following cases the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

	Appropriations	Lapsed balances Amount	%
Emergency Measures Organization	\$ 10,296,000	\$ 2,642,000	26
Labour	307,297,000	46,161,000	15
Northern Affairs and National Resources ..	89,073,000	13,192,000	15
National Harbours Board	8,853,000	1,276,000	14

16. The following table summarizes the expenditure, by departments, for the fiscal year 1964-65 with the corresponding amounts for the two previous years:

Department	1962-63	1963-64	1964-65
Agriculture	\$ 183,427,000	\$ 225,681,000	\$ 165,724,000
Atomic Energy	63,205,000	45,955,000	46,565,000
Canadian Broadcasting Corporation	80,816,000	87,576,000	87,969,000
Citizenship and Immigration	66,115,000	71,545,000	82,358,000
External Affairs	85,197,000	97,023,000	131,187,000
Finance	1,354,780,000	1,406,435,000	1,588,075,000
Forestry	16,175,000	41,816,000	49,754,000
Justice	37,021,000	40,996,000	53,529,000
Labour	348,292,000	280,384,000	283,725,000
Mines and Technical Surveys	71,130,000	67,759,000	75,238,000
National Defence	1,571,044,000	1,683,471,000	1,535,635,000
National Health and Welfare ...	1,122,448,000	1,203,855,000	1,297,586,000
National Research Council, including Medical Research Council	40,597,000	47,260,000	56,642,000
National Revenue	78,725,000	82,996,000	86,909,000
Northern Affairs and National Resources	86,377,000	77,334,000	80,895,000
Post Office	189,344,000	206,895,000	210,459,000
Public Works	149,735,000	154,843,000	224,510,000
Royal Canadian Mounted Police .	65,424,000	66,899,000	76,199,000
Trade and Commerce	65,768,000	73,584,000	90,043,000
Transport	416,019,000	423,258,000	466,948,000
Veterans Affairs	335,602,000	333,740,000	353,038,000
Other departments	143,101,000	153,096,000	175,287,000
	<u>\$ 6,570,342,000</u>	<u>\$ 6,872,401,000</u>	<u>\$ 7,218,275,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the variation between the departmental totals listed above for 1963-64 and 1964-65.

17. *Agriculture.* The decrease of \$60 million or 27% in expenditure by this Department was more than accounted for by the decrease of \$65 million—from \$122 million to \$57 million—in the amount appropriated for the net operating loss of the Agricultural Stabilization Board. The \$50 million reduction in valuation of inventories held by this Board at March 31, 1964 had no counterpart in 1964-65. Other variations were increases of \$2 million in outlays on rehabilitation and reclamation projects and \$1 million in the operating requirements of research establishments.

18. *Atomic Energy.* The net increase of \$600,000 under this heading reflects an increase of \$400,000 in contributions, grants and subsidies by the Atomic Energy Control Board, an increase of \$3.4 million in operating expenditure and a decrease of \$3.2 million in the capital expenditure of Atomic Energy of Canada Limited.

19. *Canadian Broadcasting Corporation.* Expenditure in 1964-65 shows an increase of only \$400,000 because the Corporation's capital requirements in 1964-65 were financed by means of loans instead of grants. Had the loans of \$14 million been charged to expenditure on a basis consistent with preceding years, expenditure on behalf of the Corporation would have reflected an increase of \$15 million or 17% over the previous year (see paragraph 55).

20. *Citizenship and Immigration.* The increase of \$11 million or 15% in expenditure by this Department was due mainly to increased expenditure by the Immigration Branch of \$1 million (37%) on transportation and other assistance for immigrants and settlers, and to increased expenditure by the Indian Affairs Branch of \$9 million (16%) as follows: Indian Agencies, \$1 million (15%); welfare, \$3.1 million (23%); education, \$4.4 million (14%) and community employment \$1.5 million (748%); partly offset by a decrease of \$1 million (27%) for economic development.

21. *External Affairs.* Expenditure by this Department increased by \$34 million (35%) due mainly to an increase of \$33 million (68%) in assistance to other countries.

22. *Finance.* There was an increase of \$182 million or 13% in expenditure by this Department due mainly to: an increase of \$104 million (41%) in subsidies and other payments to provinces, including increased payments of \$91 million (41%) under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58; an increase of \$58 million (6%) in interest paid on public debt; and a charge of \$10 million in respect of a special contribution to the Public Service Superannuation Account.

23. *Forestry.* Expenditure by this Department increased by 7.9 million or 19%. Expenditure in respect of projects and programs under

the Agricultural Rehabilitation and Development Act, together with payments to provinces pursuant to agreements under that Act, increased by \$5.2 million (130%). An increase of \$1 million (11%) in administration, operation and maintenance costs was largely due to salary and wage increases. Construction costs increased by \$1 million (45%) due mainly to the construction of an extension to a research laboratory at Pointe Claire, Que.

24. *Justice*. Of the total increase of \$13 million (31%) in the expenditure of this Department, \$11 million represented an increase of 40% in expenditure on correctional services. This comprised an increase of \$7.7 million (129%) for construction and improvement of institutions and \$3.5 million (16%) for administration, operation and maintenance.

25. *Labour*. The increase of \$3 million or 1.2% in expenditure by this Department was largely accounted for by payments of \$16 million under the winter house building incentive program and \$1 million under the older worker employment and training incentive program, for which there were virtually no comparable expenditures in the preceding year, together with increases of \$16 million (60%) in payments under the municipal winter works incentive program, \$5 million (11%) in the cost of administering the Unemployment Insurance Act, and \$3 million (5%) in the Government's statutory contribution to the Unemployment Insurance Fund, offset by a decrease of \$39 million in payments to the province to provide assistance for technical and vocational schools and training programs.

26. *Mines and Technical Surveys*. Expenditure in this Department increased by \$7.5 million or 11%. The significant increases were \$3 million (16%) in connection with the movement of coal (Dominion Coal Board) and \$2 million (29%) in respect of the activities of the Marine Sciences Branch.

27. *National Defence*. The expenditure of \$1,536 million in 1964-65 is the net amount after deducting from gross expenditure \$7 million derived from the sale of surplus materials, supplies and equipment. The expenditure was \$148 million or 9% less than the expenditure in the preceding year. This was mainly accounted for by a decrease in contributions to the Canadian Forces Superannuation Account, \$64 million (47%) and in expenditure of the Royal Canadian Air Force, \$45 million (6%) the Royal Canadian Navy, \$25 million (8%) and the Canadian Army, \$21 million (5%) while an increase was recorded for the Defence Research Board of \$9 million (20%).

28. *National Health and Welfare*. The increase of \$94 million or 8% in expenditure by this Department was due mainly to the introduction, effective September 1, 1964, of the youth allowance program costing \$27 million and increases of \$42 million (11%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, \$7 million (1.4%) in family allowance payments, \$6 million (15%) in old age assistance payments, \$4 million (14%) in general health grants, \$3 million (16%) in

disabled persons allowances and \$2 million (7%) in administration, operation and maintenance costs of medical services.

29. *National Research Council.* The \$9.3 million or 20% increase in expenditure of the Council was due chiefly to an increase of \$6.1 million (35%) in scholarships and grants in aid of research.

30. *National Revenue.* Of the \$3.9 million increase in expenditure by this Department, \$2 million was in the Customs and Excise Division and \$1.9 million in the Taxation Division—an increase of 5% in each case. The increases were due to generally higher administrative costs.

31. *Northern Affairs and National Resources.* Expenditure of this Department increased by \$3.6 million or 5% although contributions to the provinces to assist in the development of roads leading to resources were less by \$2 million or 25%. National Parks Branch operating costs increased by \$1.2 million (11%) while construction expenditure was up \$1 million (8%). Construction expenditure of the Northern Administration Branch was down \$2 million (19%) but this was more than offset by an increase of \$3 million (15%) in administrative costs. The Water Resources Branch showed an increase of \$2 million (18%) of which \$1.3 million represented an increase (18%) in contributions to the provinces to assist in the conservation and control of water resources.

32. *Post Office.* The expenditure of this Department increased by approximately \$3.6 million or 2% due largely to increased costs of transporting mail by land and air.

33. *Public Works.* Expenditure by this Department increased by \$70 million (45%). The major item was a net increase of \$35 million (85%) in connection with Trans-Canada Highway construction. There was an increase of \$13 million (17%) for accommodation services, including new costs of nearly \$5 million arising from the transfer of Fort Churchill from the Department of National Defence on April 1, 1964. Harbours and rivers expenditure increased by \$7 million (31%). The transfer of the Northwest Highway System from the Department of National Defence on April 1, 1964 resulted in additional costs of \$8.5 million. Expenses in connection with the construction of an ice control structure in the Montreal harbour area increased to nearly \$6 million as compared with less than \$500,000 in the preceding year.

34. *Royal Canadian Mounted Police.* Expenditure of the Force increased by \$9.3 million or 14%. Of this amount, approximately \$7 million was due to increases in pay and pension benefits, while the balance resulted from general increases in operating costs.

35. *Trade and Commerce.* Expenditure by this Department increased by \$16 million or 22%. Payments to the Canadian Corporation for the 1967 World Exhibition totalled \$18.6 million compared with \$1.1 million in the preceding year. Expenditure by the Dominion Bureau of Statistics increased by \$1.6 million (14%) mainly due to increases in staff, reclassifications and annual salary increments. The Canadian Government Travel Bureau accelerated its program to attract tourists to Canada and

the resulting increases in staff and publicity material accounted for most of the \$1 million (27%) increase in expenditure. The Canadian Government participation in the Canadian Universal and International Exhibition, Montreal, 1967 entered the firm planning stage during 1964-65 resulting in increased expenditure of \$680,000 (438%). Payments to the Canadian Wheat Board with respect to carrying costs of temporary wheat reserves decreased by \$5.5 million (14%) to \$34 million.

36. *Transport.* The expenditure of \$467 million by this Department represented an increase of \$44 million or 10%. This was largely accounted for by payments of \$27 million to The St. Lawrence Seaway Authority in reimbursement of the accumulated Welland Canal deficit incurred in the calendar years 1959 to 1964, \$6 million to the National Harbours Board for outlay relating to the Canadian Universal and International Exhibition, Montreal, 1967, and \$9 million—from \$1 million to \$10 million—for the construction of coastal ferries, docks and terminals. Other significant increases were \$3 million—from \$12 million to \$15 million—in payments to the Canadian National Railways in respect of the operating deficits of coastal ferries; \$3 million—from \$21 million to \$24 million—in railway construction subsidies; \$10 million—from \$121 million to \$131 million—in air services, mainly in respect of administration, operation and maintenance of the various facilities; and \$2 million in refunds of amounts previously credited to revenue in respect of the remission of air route facility fees. Offsetting these increases were reductions of \$4 million (10%) in the deficit of the Canadian National Railways; \$8 million (20%) in capital subsidies for the construction of commercial and fishing vessels; \$3 million—from \$4 million to \$1 million—in respect of the termination of the collection of tolls on Victoria Bridge, Montreal; and \$3 million of interest on the cost of constructing the railway diversion on the Bridge in the preceding year for which there was no comparable expenditure in 1964-65.

37. *Veterans Affairs.* The expenditure of \$353 million by this Department was \$19 million or 6% higher than in the preceding year. This increase was largely accounted for by increases of \$10 million (12%) in war veterans allowances and assistance, \$7 million (4%) in pensions for disability and death and \$1 million (85%) in expenditure for hospital construction, improvements and equipment. The increases in allowances and pensions were mainly the result of higher rates put into effect on September 1, 1964.

38. *Other departments.* Expenditure by the "Other departments" totalled \$175 million, an increase of \$22 million or 14%. An increase of \$4 million in expenditure of the Atlantic Development Board included disbursements of \$3.6 million from the newly-established Atlantic Development Fund. Expenditure by the Department of Industry increased by \$4.1 million (21%) due to an increase of \$2.6 million (378%) in administrative costs and an increase of \$1.5 million (8%) in costs of sustaining technological capability in Canadian industry. An increase of \$14 million (190%) in expenditure by the Department of the Secretary of State was mainly due to a special grant of \$10 million to the Canada

Council together with an increase of \$3.3 million (86%) in expenditure by the Centennial Commission and transfers to the Centennial of Confederation Fund. The largest decrease was one of \$11 million in expenditure by the Office of the Chief Electoral Officer.

Revenue

39. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$6,367 million of the total revenue of \$7,180 million.

40. The following table summarizes the revenue, by principal sources, for the past three years:

	1962-63	1963-64	1964-65
Tax revenues—			
Personal income tax	\$ 1,744,626,000	\$ 1,865,074,000	\$ 2,103,282,000
Corporation income tax ..	1,182,837,000	1,258,957,000	1,523,815,000
Income tax on dividends, interest, etc., going abroad	129,137,000	124,500,000	143,718,000
Sales tax	805,971,000	946,055,000	1,204,610,000
Other excise taxes	260,378,000	273,415,000	269,082,000
Customs duties	644,992,000	581,442,000	622,102,000
Excise duties	381,866,000	393,326,000	411,402,000
Estate tax	87,143,000	90,671,000	88,625,000
Other tax revenues	27,000	92,000	140,000
	<u>5,236,977,000</u>	<u>5,533,532,000</u>	<u>6,366,776,000</u>
Non-tax revenues—			
Return on investments	311,861,000	366,413,000	422,694,000
Net postal revenue	192,772,000	200,717,000	230,436,000
Other non-tax revenues ..	137,099,000	152,542,000	160,404,000
	<u>641,732,000</u>	<u>719,672,000</u>	<u>813,534,000</u>
	<u>\$ 5,878,709,000</u>	<u>\$ 6,253,204,000</u>	<u>\$ 7,180,310,000</u>

41. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$960 million in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 151.

42. *Income taxes.* Income tax collections for 1964-65 show a net increase of \$522 million over those of the previous year, \$238 million from individuals, \$265 million from corporations and \$19 million from non-residents.

The increases are due principally to the higher levels of income during the year and to the effect during the year of legislation passed in 1963 which moved forward the payment dates for corporation income tax.

43. *Sales tax.* The increase of \$259 million in sales tax over 1963-64 is due in part to the imposition in 1963 of a sales tax (4% effective June 14, 1963, increased to 8% effective April 1, 1964) on building materials, production machinery and equipment. A further 3% tax on these items was levied under the Old Age Security Act effective January 1, 1965.

44. *Other excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1965, with comparable amounts for the two previous years:

	1962-63	1963-64	1964-65
Cigarettes	\$ 195,313,000	\$ 200,211,000	\$ 197,495,000
Manufactured tobacco	19,123,000	23,460,000	17,149,000
Phonographs, radios and tubes..	9,875,000	11,432,000	13,082,000
Toilet articles and preparations	10,142,000	11,126,000	12,791,000
Television sets and tubes	10,059,000	10,578,000	10,440,000
Jewellery, clocks, watches, chinaware, etc.	5,793,000	6,353,000	6,864,000
Wines	3,727,000	3,814,000	4,092,000
Cigars	3,372,000	3,267,000	3,700,000
Sundry excise taxes	3,350,000	3,505,000	3,816,000
Refunds and drawbacks	-376,000	-331,000	-347,000
	<u>\$ 260,378,000</u>	<u>\$ 273,415,000</u>	<u>\$ 269,082,000</u>

45. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1965, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1962-63	1963-64	1964-65
Cigarettes	\$ 157,049,000	\$ 157,054,000	\$ 168,797,000
Spirits	122,099,000	129,406,000	134,716,000
Beer	98,147,000	102,907,000	105,386,000
Other excise duties	9,463,000	8,623,000	8,403,000
Refunds and drawbacks	-4,892,000	-4,664,000	-5,900,000
	<u>\$ 381,866,000</u>	<u>\$ 393,326,000</u>	<u>\$ 411,402,000</u>

46. *Return on investments.* The following is a listing of the revenue from the various investments in 1964-65, along with the comparable figures for the two previous years:

	1962-63	1963-64	1964-65
Bank of Canada	\$ 96,680,000	\$ 116,386,000	\$ 128,238,000
Central Mortgage and Housing Corporation	79,925,000	85,525,000	93,349,000
Exchange Fund Account	35,227,000	62,594,000	63,552,000
The St. Lawrence Seaway Authority .	—	2,568,000	43,065,000
Deposits with chartered banks	14,395,000	13,702,000	19,639,000
Farm Credit Corporation	8,482,000	10,869,000	13,934,000
Canadian National Railways	3,824,000	13,018,000	11,601,000
Veterans' Land Act loans	6,549,000	7,373,000	8,308,000
Securities Investment Account	12,351,000	4,059,000	6,504,000
Loans to National Governments	29,272,000	26,301,000	6,383,000
Polymer Corporation Limited	3,000,000	3,500,000	4,000,000
National Harbours Board	3,631,000	3,475,000	3,425,000
Export Credits Insurance Corporation	578,000	1,061,000	3,047,000
National Capital Commission	1,776,000	2,319,000	2,858,000
Canadian Overseas Telecommunication Corporation	1,971,000	2,586,000	2,706,000
Northern Canada Power Commission	1,696,000	1,648,000	2,105,000
Eldorado Mining and Refining Limited	3,000,000	2,000,000	1,500,000
Special United States of America securities—Columbia River Treaty		—	1,150,000
Northern Ontario Pipe Line Crown Corporation	4,087,000	1,583,000	—
Other loans and investments	5,417,000	5,846,000	7,330,000
	<u>\$ 311,861,000</u>	<u>\$ 366,413,000</u>	<u>\$ 422,694,000</u>

47. The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

Revenue from Central Mortgage and Housing Corporation for 1964-65 comprised \$89,711,000 (\$80,297,000 in 1963-64) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$3,638,000 (\$5,228,000 in 1963-64) representing the profit for the year ended December 31, 1964 which was transferred to the Receiver General as required by section 30 of the Act.

Revenue from The St. Lawrence Seaway Authority comprised \$43,-062,000 paid on account of interest deferred in the years 1959, 1961 and 1962 and current interest of \$3,000. The payment of this interest was possible largely by reason of receipt of \$27,073,000 from Department of Transport Vote 107d to reimburse the Authority in respect of the accumulated Welland Canal deficit for the years 1959 to 1964. An additional \$13,200,000 was available from the proceeds of loans to cover capital expenditure financed initially from operating funds.

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of \$100 million.

Interest earned on temporary holdings of securities of Canada in the Securities Investment Account totalled \$5,032,000. A profit of \$886,000 was realized on securities sold and a profit of \$586,000 resulted from the cancellation of certain securities held in the Account.

The reduction of \$19.9 million in interest on loans to National Governments is almost entirely due to the Government of the United Kingdom exercising its option to defer the payment of interest due December 31, 1964 on loans under the United Kingdom Financial Agreement Act 1946.

The increase of \$2 million in revenue from the Export Credits Insurance Corporation results from a substantial increase in advances to enable the Corporation to provide long-term financing for export sales of capital goods.

Revenue of \$1,150,000 on special United States of America securities represents interest to November 1, 1964 at from 4% to 4½% on an investment of \$219.5 million in medium term non-marketable securities of the United States Government acquired on September 16, 1964.

Loans to the Northern Ontario Pipe Line Crown Corporation were repaid in full in 1963-64.

48. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the last three years:

	1962-63	1963-64	1964-65
Gross postal revenue	\$ 222,300,000	\$ 235,808,000	\$ 263,704,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	25,239,000	29,936,000	28,828,000
Other disbursements	4,289,000	5,155,000	4,440,000
	<u>29,528,000</u>	<u>35,091,000</u>	<u>33,268,000</u>
Net postal revenue	\$ 192,772,000	\$ 200,717,000	\$ 230,436,000

The amounts shown for "Other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

49. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 40 for "Other non-tax revenues" for 1964-65, with comparable figures for the two previous years, is given in the following table:

	1962-63	1963-64	1964-65
Services and service fees	\$ 46,186,000	\$ 51,321,000	\$ 60,924,000
Proceeds from sales	26,531,000	28,445,000	24,250,000
Privileges, licences and permits .	25,008,000	27,172,000	30,825,000
Refunds of previous year's expenditure	22,392,000	26,839,000	20,546,000
Bullion and coinage	9,404,000	9,717,000	12,299,000
Miscellaneous	7,578,000	9,048,000	11,560,000
	<u>\$ 137,099,000</u>	<u>\$ 152,542,000</u>	<u>\$ 160,404,000</u>

Mr. HENDERSON: Here we show, first, the final deficit position appearing in the public accounts at the close of the year. Then, beginning in paragraph 13 we briefly explain the expenditures for the year. You will see here that the deficit for 1964-65 was \$38 million. You will probably have read in the *Canada Gazette* on September 3 last, that the past year's deficit,—that is for 1965-66—also totals \$38 million, the difference being that the revenues for the year went up by \$515 million and the expenditures increased by the same amount.

You will have seen that out of the appropriations for the year 1964-65 totalling \$7,412 million, expenditures of \$7,218 million were made and unexpended balances of \$194 million remained. Of this latter amount, \$152 million lapsed with \$42 million remaining available for expenditures in 1965-66 because of the special wording of the appropriations.

On the next page it is shown that the lapsed balances of \$152 million represented 3.5 per cent of the \$4,360 million of appropriations under the Appropriation Act. We then list those lapsed balances representing more than 10 per cent of the appropriations under the Appropriation Acts.

The CHAIRMAN: Mr. Henderson, could I interrupt and ask a question? Under "lapsed balances" on page 14, you list four departments. Do I take from that, for instance, the Emergency Measures Organization used the money that they had in the estimates, except 26 per cent of it?

Mr. HENDERSON: That is correct.

The CHAIRMAN: And out of all the departments of government there are only four that spent less money than parliament gave them permission to spend when the estimates were passed?

Mr. HENDERSON: No. This is more than 10 per cent of the appropriation. We just show the four largest, Mr. Chairman.

The CHAIRMAN: Could you tell us roughly how many departments went over their estimates. Did they all go over their estimates?

Mr. HENDERSON: Oh, no; by no means did they go over their estimates, Mr. Chairman. On page 232 there is a schedule which shows you the final outturn. You will see there on Exhibit 3 that all of the departments stayed within their

appropriations. They did not spend up to the amount appropriated, some by very small amounts and some by larger amounts, and in the body of the report we only refer to those which saved 10 per cent or more of the appropriations.

Mr. LEFEBVRE: Are departments allowed to overspend and, if so, if they do run over, what are the regulations governing this?

Mr. HENDERSON: They have to go back to parliament and ask for more money in the form of a supplementary estimate.

Mr. LEVEBVRE: In other words, they cannot spend one cent more.

Mr. HENDERSON: Not unless the vote wording provides for it.

Mr. BALDWIN: I have a supplementary question. Am I right, Mr. Chairman, in thinking when they do go over, until they have received parliamentary approval, they are actually breaking the law; that is, each estimate is a separate resolution and it is an approval by parliament of an expenditure in this amount. If a department spends over that, it is doing what it should not do. How about when they spend less than they get; would they equally be in contempt of parliament?

Mr. TUCKER: What position would they be in if we did not pass the estimates? Is there any recourse for overexpenditure? What sort of disciplinary action is possible?

Mr. HENDERSON: I bring it to the attention of the House of Commons, of course.

The CHAIRMAN: If they overspent and put through a supplementary to cover it and parliament did not pass that supplementary, what happens?

Mr. BIGG: Plenty of public money can be and sometimes is abused because, so far as I know, there is no way really of getting back at anybody except, perhaps, their portfolio might fall, or an election. We are not allowed to call an election because one particular department overspent \$2 million and yet, this could be an abuse.

Mr. HENDERSON: Oh yes.

Mr. SCHREYER: Mr. Henderson, do you mean to say that if there is an overexpenditure without any basis in law there is, perhaps, a Governor General's Warrant procedure under some standing law that gives authority to go beyond the parliamentary appropriation?

Mr. HENDERSON: The Governor General's Warrant procedure is provided for under the Financial Administration Act in the event that the House of Commons is not in session. There is no other way in which the executive can obtain the money. But parliament has to be "not in session" in order to permit of that; otherwise, parliament has to approve the appropriations. In point of fact, the Comptroller of the Treasury will not approve payments if they exceed the appropriation. That is one of his statutory functions.

Mr. SCHREYER: Then there is no statutory basis at all for overexpenditure.

Mr. HENDERSON: That is right. As Mr. Baldwin said, it would be spent illegally.

Mr. LEFEBVRE: Mr. Henderson, you said, unless it were worded in the resolution they were not allowed to spend any amount of money over and above the original estimate. Would you give us an example of how these resolutions are worded?

Mr. HENDERSON: I refer in the bottom paragraph on page 13 to \$42 million, Department of Labour vote, the winter works incentive program, the winter house building incentive program, older workers employment. Other money did remain available for expenditures in the next year because of the special wording of the appropriations. The wording of the appropriations spells that out that it can be carried forward. When parliament passes the appropriation they approve that wording, and the wording of the appropriation becomes law, and that is what guides me in my verification of how it was spent.

Mr. LEFEBVRE: Are most of the appropriations worded in this way?

Mr. HENDERSON: Only exceptional ones and I usually refer to them. I believe you are familiar with them generally.

Mr. McLEAN (*Charlotte*): Mr. Chairman, is this just not another expenditure.

Mr. HENDERSON: That is right.

Mr. LEFEBVRE: I know, but I wanted to get clear on the overexpenditures.

Mr. McLEAN (*Charlotte*): Well, this is an underexpenditure.

Mr. LEFEBVRE: I know.

Mr. HENDERSON: In paragraph 16 there is a table summarizing the expenditure by departments for the fiscal year compared with the situation for the two previous years, and in each of the paragraphs that follows we comment regarding the significant increases or decreases that are shown in this table. Most of the members are familiar with these increases and decreases, and I suggest we might jump over to page 18—that is, unless you have any questions.

We take up revenue, as you will notice, beginning at paragraph 39 on page 18, and we show a summary of revenue which, as you can see, for the year totalled \$7,180 million. Again, explanations are given in similar fashion to account for the principal differences in revenue items compared with previous years. I do not know whether members have any questions on this section. We seek to provide as brief and to the point explanations as possible and I may say, Mr. Chairman, some of these explanations in the paragraph here actually meet suggestions made in this Committee in prior years. We have gone to some pains to try to keep the same setup each year so that you will recognize the formats and figures and, generally speaking, I think it has proven satisfactory. But if you have any further suggestions you could give us, either at the meeting or afterwards, we should welcome them, because we happen to be engaged in writing our next report right now.

Mr. MUIR (*Lisgar*): What would be the non-tax revenues, generally?

Mr. HENDERSON: The return on investments that the government makes; that is to say: dividends from Polymer; interest collected on loans; postal revenue, and there are a number of other non-tax revenues. There is a summary given at the top of page 19. Would you like to have particulars of the other non-tax revenues? They are available in the public accounts.

Mr. MUIR (*Lisgar*): I just wanted a general idea of what made them up.

Mr. HENDERSON: Perhaps Mr. Long could just give them to you.

Mr. G. R. LONG (*Assistant Auditor General*): On page 233, Mr. Muir, there is a summary of revenue by main classification. The first column is tax revenues and all the remaining columns are non-tax revenue.

Mr. HENDERSON: Does that provide the information, Mr. Muir?

Mr. MUIR (*Lisgar*): Yes; thank you very much.

Mr. BALDWIN: It is interesting to see, Mr. Chairman, that there is an item of revenue of \$12,000 from the Auditor General's office.

Mr. HENDERSON: It is in connection with the international work that we do, that is, recovery of costs—

Mr. TARDIF: Possibly it is a typographical error.

Mr. HENDERSON: No. The figures are certified, Mr. Tardif, I can assure you. There is no danger of that.

(*Translation*)

Mr. LEBLANC: In the proceeds from sales you have Agriculture \$1,300,000. for sales. What is it? Proceeds from sales, for Agriculture: \$1,300,000. What did we sell for \$1,300,000? Did we sell agricultural products?

(*English*)

Mr. HENDERSON: It is contained in the public accounts, Mr. Leblanc, and we will give it to you in just one minute.

The CHAIRMAN: While you are looking that up, each of these departments that make sales, do they keep a ledger for accounts receivable, sales and receipt of payments, that sort of a bookkeeping system?

Mr. HENDERSON: Yes, Mr. Chairman. You will remember from our earlier discussion on the accounts receivable how they keep them in memorandum form. I had a comment in my report last year and again this year, a subject I think on which Mr. Bryce and Mr. Balls spoke when we met with them in the summer. They do keep accounts receivable.

The CHAIRMAN: Mr. Long now has the information Mr. Leblanc was seeking.

Mr. LONG: Mr. Leblanc, the largest item under proceeds from sales comes from the research branch of agriculture: sales of livestock and produce, \$942,000. The next item is the sale of surplus grain in government elevators, \$142,000. The sale of screenings is \$120,000 and on down to lesser amounts.

Mr. SOUTHAM: Mr. Chairman, before we leave this item under non-tax revenues in exhibit 4 on page 233, looking at miscellaneous items, I notice under National Defence there is a sum of something like \$3,368,595. That is a fairly large sum compared with other items in that same column. Could you just give us an idea where that revenue accumulated from?

The CHAIRMAN: Mr. Long is just turning that up and will give it to you. Mr. Southam, your question had to do with page 233, item 26, National Defence? You wanted to know proceeds from sales, is that it?

Mr. SOUTHAM: It is item 26, under the last column, miscellaneous, an item of \$3,368,595. It is quite a large amount to come under miscellaneous. I just wondered for my own information what was the source of that.

Mr. HENDERSON: This is a fairly involved section and while we are looking, Mr. Southam, could I continue with the next paragraph and then we will return to it.

The next paragraph to which I would like to direct your attention is paragraph 58 on page 30, which is entitled, "Questionable charges to vote 15 of the Department of Citizenship and Immigration". As you will see, we questioned here whether welfare and educational expenditures on non-Indians, other than those on a recoverable basis, were within the ambit of vote 15 of this department. I can advise the committee that our question was supported by the Deputy Attorney-General and on April 1 this year the Deputy Minister of Northern Affairs advised me that the vote wording would be amended in supplementary estimates, (A) for 1965/66 and supplementary estimates (B) for 1966/67. Consequently, as a result of the change in the vote wording, our point has been met and this matter can therefore be disposed of.

The next paragraph I should like to discuss with you briefly is paragraph 61, which is entitled Department of External Affairs missions abroad. It is on page 33. I also had a paragraph in my 1964 report about this, paragraph 49. Under this heading in 1964, and I suggest you do not need to trouble to open those reports, I should tell you that I referred to a defalcation by a locally-engaged accountant employed by the Canadian Mission in Canberra. This defalcation amounted to \$13,589, of which \$7,053 was recovered directly from the employee and \$6,536 was charged to the public officers guarantee account. We also mentioned there in that note in 1964 that the direct cost of investigating this defalcation was approximately \$6,000, to which might be added indirect costs of the same amount. The reason this loss went undetected so long was largely the inadequate supervision of the accountant's work in the mission, coupled with a lack of attention by mission officers to queries from Ottawa on its accounts and on routine financial matters. Weaknesses in the departmental system of internal financial control and neglect in Ottawa to follow up observations raised by treasury officers were also contributing factors. In discussing the seriousness of this situation with departmental officials, I asked if they would set up a small internal audit staff of one or two men to carry out on the spot tests as part of their inspection of embassies and high commissions. I offered in the meantime to have my officers carry out test examinations at a number of posts providing such work could be integrated with other assignments, so as to keep travel overhead to a minimum. This we have been doing for the past couple of years and are still doing because the department has not yet set up any internal audit establishment. In the 1965 note before you reference was made to another loss which came to our attention when we examined an embassy's records in January, 1965. The three employees who would have handled such transactions as are referred to here in 1961 had, however, either been transferred away from the embassy or had left the service. We suggested to the Department of External Affairs that these men be got in touch with and statements taken in an effort to find out the true facts. This took a very long time and it was only in March of this year that a report was obtained, from the only employee who could be located, to the effect that

he had had nothing whatever to do with the financial transactions of the embassy at that time. At least that is the report brought back by the R.C.M.P. and it was accepted by the department. In July of this year the department made a submission to Treasury Board to make a duplicate payment to the transportation company, and this was done. These two cases I have mentioned are very good examples, in my view, of the importance and need of a simple, effective, internal audit programme in a department like External Affairs. It underlines what I had to say in my reports in the introductory section, which we have discussed before in the Committee.

I will be pleased to deal with any questions, Mr. Chairman. I did not think, perhaps, it was necessary to suggest that a witness be brought. The members may feel they would like to examine it in depth. I would hope the committee will support my recommendation here, that the department take prompt action and such a small unit be set up without delay.

Mr. TARDIF: What were the number of people in a period of five years?

Mr. HENDERSON: These are the only two which have come to our attention, Mr. Tardif.

Mr. TARDIF: The amount is about \$8,000.

Mr. HENDERSON: About \$18,000 was the cost of the first one and the second one is about—

Mr. TARDIF: But you recovered some from the first one, did you not, Mr. Henderson?

Mr. HENDERSON: Yes, I am allowing for that. I am also including the costs that I mentioned of sending people to Australia to check it out.

Mr. TARDIF: How much would it cost—fully realizing the Department of External Affairs would not be empire building—how much would it cost to carry on staff internal audits?

Mr. HENDERSON: For the type of establishment which I discussed with the Under Secretary, one good man with a junior would be sufficient. One good man would be—

Mr. TARDIF: He would be called upon to go to every one of our missions outside the country?

Mr. HENDERSON: He would be attached to the inspection team. They send inspection teams around to the embassies now but they have never included in their inspection any test audit or examination of the financial and accounting records at the embassy, or checking to see that they conform to the regulations.

Mr. TARDIF: This would be in addition to the team that now exists?

Mr. HENDERSON: That is right.

Mr. TARDIF: Thank you.

Mr. HENDERSON: They propose to do it but it just has not been done yet. They subscribe to the principle and the idea, they consider it desirable, but no action has yet been taken.

Mr. MUIR (*Lisgar*): I was wondering, Mr. Chairman, where an employee of an embassy would get the authority to pay anything out in cash?

Mr. HENDERSON: It so happens in this particular embassy, Mr. Muir, the practice of paying accounts by cheque was not in accordance with the customs of the country. Bills had to be paid in cash.

Mr. BIGG: I wonder if you could give us any idea of the gross sum that could be involved. How much money are these embassies spending without, apparently, any proper check at all. Is it because it is a small amount or is there a considerable amount of money loose at the other end?

Mr. HENDERSON: This is a good question, Mr. Bigg. That is why, in line with Mr. Tardiff's question, it would not justify an expensive establishment at all. Your loss potential is widely spread over a great many points and conceivably it would be a worthwhile gamble not to check all of them. I may say I discussed this aspect with the Under Secretary of State for External Affairs and he made the point to me that he did not consider that as a factor. You are dealing with people; you have their morale to consider and the checking up of their handling of funds at periodic intervals is a very desirable thing and they would like to see it. They subscribe to the principle of it. If you care to look in the public accounts there is a listing of the costs of each of our high commissions and embassies, and you will see the size of the spending at each is not large. In places like London, Paris and Washington it is substantial, but the other ones are smaller.

Mr. TARDIF: Is this petty cash that you are referring to now?

Mr. HENDERSON: No, the figures I am referring to are the total cost of the high commissions and the embassies, Mr. Tardif. This particular amount relates to payment of a moving bill by a local transportation company who had handled the moving of personal effects of embassy employees back to Canada over many years and who said they had never been paid, but we had evidence to the contrary.

Mr. TARDIF: I asked that because you said the expenditures for carrying on our missions outside do not appear to be large. I thought they were quite large.

Mr. HENDERSON: I said that in relation to the cost of setting up such an internal audit unit.

The CHAIRMAN: Could you give us the cost of the operation of the United Kingdom embassy? What is the total amount of money spent?

Mr. HENDERSON: It was \$1,046,000 in the year 1964-65. Madrid was \$186,000 and Nigeria was \$133,000. The total was \$17 million.

The CHAIRMAN: Are you finished, Mr. Tardif?

Mr. TARDIF: That is right, yes.

Mr. BIGG: I presume a great many of these embassy expenditures are accountable and are audited, is this not correct?

Mr. HENDERSON: As I say in the note, Mr. Bigg, we have in the past not visited them to undertake this work principally because the paid cheques, receipted vouchers and related documents are forwarded to the department in Ottawa and we do the work here, which should be sufficient for us to do. However, by making an on the spot examination we have uncovered a number of things; adherence to the regulations or failure to adhere to them, suggestions

and improvements, and these are contained in some quite detailed reports, as far as the ones we have examined are concerned. I have sent these to the Under Secretary, who has been good enough to say they are constructive and helpful to him and his associates.

Mr. BIGG: I put to the committee the suggestion that we have a real problem here and we would like to endorse the efforts of the Auditor General to tighten up, wherever it can be done, without undue expense to the public purse.

The CHAIRMAN: I have Mr. Southam and then Mr. McLean on my list.

Mr. SOUTHAM: Mr. Chairman, Mr. Bigg has put into words my thoughts here, due to the fact that the Auditor General himself has run into this difficulty and the suggestion has been substantiated by the Under Secretary of State that we add this extra accountant to the personnel staff. I go along with Mr. Bigg in suggesting this be carried out. I think it would eliminate the problem in the future.

The CHAIRMAN: Do I understand the internal financial control is in operation now?

Mr. HENDERSON: There is internal financial control in the department, certainly, Mr. Chairman, but it is weak in this particular area.

The CHAIRMAN: How is it at the foreign embassies?

Mr. HENDERSON: The regulations are there. Headquarters set down the instructions. It is a matter of conforming to them and seeing that conformance is indeed taking place. In this case the bills from the transportation company were piling up there when my officers located them and Ottawa had not known about it.

Mr. McLEAN (*Charlotte*): Mr. Henderson, you said there is a checking team which goes around to these embassies. Do you know what their duties consist of?

Mr. HENDERSON: I think it is primarily an examination of the manner in which the embassy has been carrying out the policies of the department; the development of the personnel at the various levels within the embassy; accommodation; security aspect—

Mr. McLEAN (*Charlotte*): How many are there on the team?

Mr. HENDERSON: Usually three, Mr. McLean.

Mr. McLEAN (*Charlotte*): Could you not put one of your men on this team and take one of the others off and he could do double duty?

Mr. HENDERSON: I suggested to the Under Secretary that the department might see fit to attach their own internal auditor to this team to make reports and I would see his reports, rather than attaching one of my men to the team, although I would be happy to consider that.

Mr. McLEAN (*Charlotte*): Why not take one man off? Surely if he is going to look around and see if the embassy is all right he could look into the financial status at the same time if he had the qualifications?

Mr. HENDERSON: That is my view.

The CHAIRMAN: Mr. McLean, how would it be if I make the recommendation that you would be willing to take the place of one of those fellows and represent the Public Accounts Committee on that team?

Mr. FLEMMING: There probably would be complications if he did.

The CHAIRMAN: I think that is a good idea, Mr. McLean, removing or exchanging one of those fellows for one from the Auditor General's department. If they cannot find that man, we will find a man in public accounts who is willing to go.

Mr. FLEMMING: We could find several men.

Mr. BALDWIN: Mr. Chairman, before we leave this I would like to ask Mr. Henderson, if he is free to say, would the task be complicated in this particular instance if there were funds spent, for which there is no necessity to account, for purposes which are not necessarily specified in the appropriation?

Mr. HENDERSON: Not in this area, Mr. Baldwin. This is a straight administrative operation of what you might call a branch office of an organization.

The CHAIRMAN: I am sorry, gentlemen, we will have to drop the discussion at this point. We have Mr. Ouimet and his officials here and we will now turn to paragraph 58, which is found on page 28.

Mr. Ouimet, would you and your officials come forward. Mr. Bennett will find seats for you. While you are doing that, Mr. Long will answer Mr. Southam's question.

Mr. G. R. LONG (*Assistant Auditor General*): I must apologize for not being able to turn this up more quickly. The national defence section of the public accounts is quite an involved section. The largest item of that \$3,368,000 is \$1,589,000, representing refunds from the governments of Germany and the Netherlands for sharing costs of aircraft. There is \$1,400,000 from Germany and \$108,000 from the Netherlands. The next largest item is excess profits from subcontracts, Avro aircraft. That amounts to \$374,000. Another item is the Defence Research Board miscellaneous, which includes royalties on sales of \$315,000. There is \$191,000 in pension contributions for the Defence Services Pension Continuation Act. Now, they range on down from there. Would you like me to go any further?

Mr. SOUTHAM: Thank you, Mr. Chairman, that answers the question. I thought it was quite a large sum and it would be nice to get some information on it.

Mr. LONG: The amounts have to go in here, of course, rather than in the vote, because that would then supplement the appropriation for the current year. That is why it does appear large where it takes some time to make these recoveries.

The CHAIRMAN: Gentlemen, we have with us this morning Mr. Ouimet, President of the C.B.C., and his staff as our witnesses.

I would ask you, Mr. Ouimet, if you would like to introduce the gentlemen with you.

Mr. J. ALPHONSE OUIMET (*President, Canadian Broadcasting Corporation*): With pleasure, sir. Mr. Coderre on my right is the Vice President of Adminis-

tration; Mr. Davies, the Vice President of Finance; Mr. Gilmore, the Vice President of Operations and Planning.

The CHAIRMAN: Thank you very much. I am very glad that you gentlemen were able to join with us this morning and we will proceed with paragraph 56, page 28, and Mr. Henderson will introduce the subject matter.

56. *Salaries and wages paid for work not performed.* In the course of the audit of the payrolls of the Canadian Broadcasting Corporation we noted that program costs included payments to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.

All payments were in accordance with the articles of the various union agreements and our tests did not reveal any discrepancies in their application.

In order to determine the extent of these costs, a special study was made of the payrolls of the Toronto Area and English Network for the period November 23 to December 20, 1964 and of the Quebec Region and French Network for the period February 22 to March 21, 1965.

Our study for the selected four-week periods disclosed the amount of scheduled time in excess of actual, as follows:

	Hours	Com- pensation
Toronto Area and English Network	5,614	\$ 14,862
Quebec Region and French Network	7,950	20,423
	<u>13,564</u>	<u>\$ 35,285</u>

Other tests have served to confirm that this situation prevailed throughout the year. On the basis indicated by our test examinations, payment of salaries and wages for work not performed would amount to approximately \$450,000 for the year.

The majority of the employees receiving this compensation were credited for hours not worked during each of the four weeks included in our study. Figures for three of the employee classes selected for the test, comprising some 636 employees receiving \$23,379, or 66% of the payments, indicated that the additional compensation averaged \$36 for the period. The Corporation has advised us that it regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

Since the procedure followed results in payment for work not performed, it is, in our opinion, non-productive expenditure of the type which the Public Accounts Committee has requested be brought to the attention of the House.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Gentlemen, as you know, I am under instructions from this committee to report all instances

encountered in the course of my work which indicate payment of public funds which are non-productive. That has been a standing instruction for some years.

Accordingly, it is under that heading that this item in paragraph 56, page 28, appears. This is one of two items of this nature in this report. You are going to be coming to the second one when you examine the witnesses from the National Harbours Board and we shall be discussing the subject of "dip time". I will not discuss what that is now but it is described in my report under the Crown Corporations section.

In this case we encountered a situation where salaries and wages were being paid for work not performed. We are perfectly aware of the position of the corporation in this matter in its relationship with the unions, as indeed you are. Nevertheless, I felt it was my duty to bring this situation to the attention of the committee. Mr. Ouimet was good enough to acquiesce to my point of view when we had a discussion of this at the time when it was put together. I should like to ask Mr. Stokes if he could just give you a bare bones outline of this before the witnesses speak, Mr. Chairman.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): If I may, I think we can take paragraph 56 as having been read.

In the course of the audit of the source documents supporting the weekly payrolls, we noticed that program costs included payment to employees for scheduled hours which were in excess of the actual hours of attendance. The key words in this statement are "scheduled hours".

An employee may be scheduled to work from nine o'clock in the morning until six in the evening—that is eight hours—but is only in attendance from nine o'clock until three o'clock, or five hours. The National Association of Broadcast Employees and Technicians Union agreement, 1963-65, article 9, defines a tour of duty to mean the authorized time worked by an employee during the day, with a minimum credit of six hours. For two of the other unions, with which the corporation has contracts, the minimum credit in one instance is seven hours and in the other it is four. In the case of my illustration the employee's approved or scheduled time was eight hours, approved time worked was five hours, but he is paid the minimum of six hours, which would be one hour in excess of the actual hours of attendance for that one day. But a minimum regular work week of 40 hours is provided under Article 5 of the same agreement, thus, in fact providing for an eight hour day, and on the weekly payroll the employee is paid for three hours for that day in excess of the actual hours of attendance. When this is repeated week after week it adds up to a substantial sum.

We reached the conclusions on our observations by examining the employees time cards and weekly time reports in detail for a four week period at each of the Toronto area and the English network and of the Quebec region and the French network. The compensation paid for scheduled time in excess of actual was determined to amount to \$35,285. This multiplied by 13, to equal 52 weeks of the year, totals \$458,705. Subsequent tests were then made to satisfy ourselves that this condition continued to prevail throughout the year.

To further confirm our findings we turned our working papers over to the corporation's internal audit staff and they verified our findings. In response to our customary practice of providing our audit observations to responsible

officials for their comments, Mr. Ouimet replied directly to Mr. Henderson, in a letter from which we quoted in our note, that the corporation had advised us that it regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast production.

I think that is about all. That covers the note and the action which we took to verify this matter.

The CHAIRMAN: I think it would be fair at this point to hear from Mr. Ouimet and then we will take questions from the committee.

Mr. J. ALPHONSE OUIMET (*President, Canadian Broadcasting Corporation*): I think I should say first that we agree with the statement of facts given here, and also as amplified by Mr. Stokes. There is no question at all about the facts of the case.

We would like to stress that this sort of special provision we have in our agreements with our unions is common in our kind of operation. These are the same sort of union contracts as are found with the American networks, ABC, NBC and CBS, these provisions could not be eliminated in our type of operation. Of course, everything is theoretically possible but in practical terms we have to pay for the flexibility that we need. I think one of the basic points I should stress, before asking my colleagues to comment further on this, is that we do not pay our people on an hourly basis. Our contracts are for a guaranteed annual wage. The hourly basis comes in for the calculation of overtime. You have to keep in mind that we pay an annual wage for a week which shall not be more than 40 hours and a day which shall not be more than eight hours a day. Within that framework we, of course, have to provide, in the contracts with the employees, for a number of provisions which protect the employee against, for example, shifts that are too long, turn-overs that are too short, and so on. I think at this point, since we are getting into something fairly specialized with your permission I would like to ask Mr. Coderre to continue.

Mr. G. CODERRE (*Vice-President of Administration of Canadian Broadcasting Corporation*): Frankly, there is very little I could add to what Mr. Ouimet has said except to confirm that the provisions we have here with our unions are consistent with the practice of labour unions in this business and in the industry in the United States.

I think, to come right to the point, the only area that is really problematical and with which we should be as concerned, I suppose, as the Auditor General, is this non-productive aspect of the whole operation. As you gathered from the report itself, there are some premiums here which have been identified with this category of non-productive hours which in fact do not really fall in this category. For instance, the displaced meal period premiums and the premiums for turn-around are penalties we pay for shifting pre-arranged schedules. This is not, in fact, non-productive.

The real problem, as Mr. Stokes has suggested, is the short shift: that is, where people have been assigned to work a certain number of hours and are released early. The reason here is partly one of the unpredictability of our scheduling requirements for manpower in many areas of our activities. This

situation would force us to keep people idle when we find, after completion of the assignment, that we have a number of people we no longer need on the premises. Here you have to reconcile the realities of this situation, and morale, with what could be considered non-productive scheduling. Considering again that, to all intents and purposes, we do have a guaranteed annual wage, we are committed to pay for those services whether these people work, or not, where we release personnel for an hour or two prior to their scheduled departing time, in our estimation is sometimes less problematical than having them around. However we would not do this if these hours were scheduled at the outset as overtime hours. If a person is scheduled a work day, which would be guaranteed in any event under the guaranteed annual wage, technically the cost of releasing him early is simply the preservation of his basic salary. Here you are faced with a decision which has to be a pragmatic one, that is the impact on morale of keeping a number of people idle in a studio. But where we would be in trouble—and this is what I want to emphasize—is where these hours were already scheduled as overtime hours. This is the area where we have to be extremely careful and, in practice, we try to avoid as much as possible the early release of people when hours were scheduled as overtime hours.

The CHAIRMAN: Mr. Coderre, perhaps you could give the committee a practical example of the classification of work these people are expected to do. You will have a group that will move back the scenery, and then you will have electricians and someone else. Is this the case of a man being hired under contract to do a specific job and he cannot do, or will not do, another job?

Mr. CODERRE: Partly, yes. It is a question of jurisdiction, as you suggest—you may have people around who could be otherwise occupied, but you cannot use them because of jurisdiction restrictions. However, that alone would not be the real answer to this problem.

To illustrate the point, we are speaking here, mainly of technical personnel, and what we call T.V. craft and production personnel, who work in, or connected with studio program operations; as opposed to those who work in shops, in the scenery or design departments, and can work a regular shift.

The people we are worried about are the people who are assigned to the "program". There is one basic philosophy of scheduling in our business, which requires that you retain the same complement of people together for each program. You cannot split a crew just because your work day has finished, or because, you could conveniently, reduce time. You have to keep the same complement of men, together because of the artistic and creative character of the endeavour.

This being the case, you are sometimes found with people who have to work long hours. When they have worked long hours early in the week, they should then be released later on in the week, if the expense, or if the circumstances warrant it. You can run into a situation where a man has been working for, let us say, 40 hours in three or four days, and by the fifth day, while he was scheduled for 8 hours, you do not need him beyond four hours. Therefore, you will let him go on purely humane and morale considerations: this is the type of person we are speaking of.

Mr. TARDIF: Do these working rules apply to the other independent broadcasters in Canada?

Mr. CODERRE: Those who are unionized, yes.

Mr. TARDIF: Are some of them not unionized?

Mr. CODERRE: Not all of them; but quite a few. These provisions are standard in a union relations operation. This applies very much to the American networks, as we said earlier.

Mr. BIGG: I think I understand the problem from the point of view of say, a dancer who appears for five minutes a week in front of the cameras. She has to perhaps spent a week practising and she is kept on the payroll, but I think there is a danger here that we are paying ghost people who never will appear before a camera, and I think there is a very great danger there and I think probably that is why we are interested in this whole thing.

I think we understand the problems of competing with the American programs; we have to have class; but we do not want to pay out of public money to the new aristocracy of people who are idle. Perhaps we can only put it as a pious wish that our great national network will co-operate with us in watching the public purse, because you can kill the goose that laid the golden egg. If the people of Canada become alarmed at public moneys being wasted in this regard, we will have to stop putting the public purse behind entertainment, and throw it back to private industry. Whether we can go further than that on this point, I do not know.

The CHAIRMAN: Mr. Ouimet, and then Mr. Baldwin.

Mr. OUMET: Mr. Chairman, I would like to say something in view of Mr. Bigg's remark.

We are not dealing here with performers before the cameras. This is entirely staff behind the cameras.

The second thing I would like to mention is that we are dealing with the give-and-take which is always part of the negotiation of a labour agreement, and each kind of operation will have its own idiosyncrasies. In this particular field, it is very difficult to schedule the exact time that a program will take to produce—you just do not know exactly; you can set it in general terms, but we often overshoot, overestimate and often underestimate that time, because there are a great number of unexpected developments in an operation such as broadcasting. We do not know what special event will take our attention tomorrow; it may be some very important thing which will involve complete re-scheduling of a great number of people. Because of these uncertainties, over the years in the United States, where they have had the same problems, there has developed a certain approach in the relationship between management and labour in dealing with these problems. These are reflected in our present union agreements.

While we recognize that it can be said that there are some hours paid for, which were not actually worked—we are not questioning this at all—we are saying that the arrangement we have is a reasonable one, and a proper one, considering all aspects of the problem. I would not accept the statement that what we have is inefficient *per se*. I think it is as efficient as the present stage of development of labour philosophy permits at this time.

I do not know of any other way that it could be done. If you ask people to work during the hour which has been scheduled for their lunch today, in terms of the present labour situation you have to pay for it. If you ask people to come at all on one day, even if you use them for only two hours, then you are going to have to pay them for a certain minimum number of hours. Therefore, there is time there that is unproductive. We say that our contracts are reasonable and proper ones, even though there is time that is paid that is not productive time, according to the definition the Auditor General has used.

Mr. BIGG: I accept that as the explanation of how you are actually paying people for time not spent on the payroll. I would like to make sure that, when we are drawing up the contract which calls for this type of service, we are very careful that the contract itself is essential.

Mr. CODERRE: May I reply to this? I agree with you, sir and we can give you these assurances, but the point again is that it is not so much whether the contract is essential or not—let us assume that this is taken for granted—it is the recognition that we do have practices and requirements which will cost us more than the ordinary enterprise. This is really the problem. However, you can be assured that when we approach bargaining even in this area, we do our share of bargaining, and in some instances, it took us a long time to even come close to what the Americans had already conceded.

Mr. McLEAN (*Charlotte*): I would like to ask Mr. Ouimet a question on this annual wage. To me, an annual wage is a yearly wage. Do you guarantee so much a year to these people working for you? Do they come under a yearly wage? Do you say that you are going to pay them \$10,000 or \$7,000, or whatever it is, on a yearly wage, and when they do not make it you have to make it up? How do you go about that?

Mr. OUMET: May I ask Mr. Coderre to answer that.

Mr. CODERRE: The mention of the yearly wage earlier was to identify the problem. These are salaried employees: This is really what we are saying. They are all paid a salary like anyone else working as a regular employee in a master-servant relationship. This is guaranteed, and for this we expect a certain amount of work.

Mr. McLEAN (*Charlotte*): What do you mean by a guaranteed yearly wage.

Mr. CODERRE: They are paid \$4,000, \$5,000 \$6,000, \$7,000 annually to do a given job for the corporation 52 weeks a year.

Mr. McLEAN (*Charlotte*): Yes; you pay him, say, \$7,000 for a year's work. Why does this enter into it. It is unproductive. If you pay him \$7,000 it must be all productive.

Mr. CODERRE: It is non-productive, because if you look at the accounting aspects of the question and the computation of overtime, there are times in the refining of schedules where employees have been assigned a certain number of hours which were not completely performed; but on the balance, they may have worked more than the scheduled hours—

Mr. McLEAN (*Charlotte*): What difference does that make, if it is a guaranteed yearly wage, and it does not come up to it? This is basic. I do not

know just what we are talking about. If you guarantee them so much for a year and they do not make it I do not care how they get it but you have to pay it.

Mr. CODERRE: It is up to us, however, to make maximum utilization—

Mr. McLEAN (*Charlotte*): This is preparation for the shows. That is what you are talking about—schedules, reschedules and so on. It is purely a matter of management, is it not, to see that that particular person does so much work within the guarantee.

Mr. CODERRE: Is it?

Mr. McLEAN (*Charlotte*): Well, I cannot see how—

The CHAIRMAN: Mr. Muir, do you have a supplementary to this?

Mr. MUIR (*Lisgar*): Yes. I would point out to Mr. McLean that, though it is an annual guarantee, if they work overtime they get over the yearly wage. Is that correct?

Mr. CODERRE: That is right. If they work overtime they will receive more money.

Mr. MUIR (*Lisgar*): If they work 100 hours' overtime then they get paid for 100 hours' overtime.

Mr. McLEAN (*Charlotte*): This is up to management. I think it all depends on management. If you make an agreement with people and say that you are going to pay them so much a year, well, then it seems to me it is all up to management to see that they stay within this.

Mr. BALDWIN: Mr. Chairman, I would make an observation first, that this problem should generate a certain degree of sympathy in the minds of the C.B.C. for the role of members of Parliament who do not have to spend all their time at their desks and who, when they are away from their desks, are really not engaged in in-non-productive work.

I was wondering if Mr. Stokes could, some time before we have finished our questioning, identify several cases. I have been not able quite to follow this through to its logical conclusion. I was wondering if he could identify three or four specific cases, if you have the information there, which would be taken out of the cases you have reference to in paragraph 56.

The CHAIRMAN: I think it would be a good idea, Mr. Stokes, if you gave us a little help after Mr. McLean has finished his questioning.

Mr. Bigg will be next and then Mr. Noble.

Mr. Bigg, we will take your question now.

Mr. BIGG: I have not yet put my point over. I am looking at it from the point of view of looking after the public purse again. I think there is a real danger in paying overtime and all this sort of thing, and that there will be slacking on the job in all departments if you do not watch it.

I will give you an example. Let us suppose you are working for the Department of Public Works and there is a lot of lumber to pile. If you spend all the time on a coffee break during the day and leave the lumber to be piled in overtime—it has to be piled before the sun goes down—they keep him on after five o'clock and pay double or time and a half, for overtime. He slacks all

day, and he is encouraged to do this because his overtime more than makes up for it. I can see, within the entertainment field, that if you had scenes to shift you would do nothing during the scheduled hours and then you would be called in at midnight to shift the scenery, perhaps at double pay.

This particular branch may not be guilty of this, but from my point of view I want to make sure they do not pad the account. I think it is an expensive luxury paying for TV, and a lot of people I think agree with this. Industry pays for a great deal of it in the United States, I am sure.

The CHAIRMAN: Mr. Bigg, I think Mr. McLean answered your question when he said that it is up to management. If management is on the job the lumber would be piled before sunset and coffee breaks would not take all day. That is, if management is on the job.

We will have Mr. Stokes and then back to Mr. Noble.

Mr. STOKES: In answer to Mr. Baldwin's question I have a case here of a technician who for a full week, the week commencing December 14, was scheduled on the first day of the week to work eight hours. He worked only five hours, so for that day there were three hours, for which he was scheduled and paid, that he did not work. The following day he was scheduled for eight—he worked six; the following day he was scheduled for eight—he worked five; he was scheduled the next day for eight—he worked three and one half; the next day he was scheduled for eight and he worked four and one quarter hours. He had a 40 hour week, which falls well within this scheme of an annual wage, if you multiply 40 hours by 50 weeks in a year—2000 hours in a year. For this particular week he was scheduled to work 40 hours and there was a shortfall of 16 hours. In other words, we regard this man as having been scheduled to work, but the work was completed and he was told to go home, and he was paid for 16 hours of work which was not performed.

Mr. BALDWIN: May I interrupt here for a moment, please. In that instance there would be no loss to the corporation at all, because there would be a guaranteed annual income; but as I understand the situation, if that man were then called upon for overtime under special circumstances this is where the loss would come in. Am I correct?

Mr. STOKES: He could be scheduled to work overtime on a certain day, and he would be paid overtime for that day, but that overtime would not be counted against the time that he was not working the following day.

I might point out that it is a condition which is not isolated, but rather this is a pattern which develops in an entire department. It can come about that a team would be selected for a certain production and that production would repeat itself week after week, so that that same team, assigned to this particular program, would be scheduled, we shall say, for eight hours, or perhaps 11 hours, as the case may be. The program is completed week after week with results that the entire crew is released from duty within a period less than the scheduled time.

Mr. Coderre mentioned earlier that this audit note included premium time for displaced meals and turn-about. In fact, it does not. In our long form a report it includes those two items, but there is no premium time in this note at all.

Mr. NOBLE: Mr. Chairman, the problem I am concerned about has been pretty well answered and that is that the overtime amounts to something more than the yearly salary. This is extra, as a gift. If a man puts in 40 hours the first four days and he worked the next two days of the week he would be paid overtime for that.

Mr. Chairman, I would like to know this: Would this \$450,000 which is mentioned here be all overtime money? Would it be money that would be paid from all overtime pay?

Mr. STOKES: No overtime.

Mr. NOBLE: No overtime is included in that calculation at all?

Mr. STOKES: None at all.

Mr. NOBLE: This would just be on hours which you counted which were non-productive.

Mr. HENDERSON: We wanted to see, Mr. Noble, the level at which it was running. This is based on our examination in detail of some weeks, as Mr. Stokes said, converted into an annual figure. We wanted to see the size of the—

Mr. NOBLE: Mr. Chairman, if this operation was under the administration of private enterprise do you not think this \$450,000 would be reduced considerably?

Mr. OUIMET: No; if they worked with the same contract they could not do anything different. The only question here is whether the contracts are proper, in the first place. I do not think there is any question about the administration of the work under the contract. However there might be another element; for example, it might be possible, on certain occasions, to get more from labour under a given contract than we might get otherwise.

Mr. Stokes mentioned this particular instance of one man—and then he mentioned the possibility of a whole crew of men working on a program being assigned repeatedly for a certain number of hours—let us say eight hours—and coming out with their work done in six hours, so that if you do that three or four times a week, you end up with a fairly sizeable amount of non-productive work. In that case, the question for us is, is this the best way we can operate? Would it have been better to keep these fellows working, even though the program was pretty well finished? Would it have been possible to assign this particular crew or this particular man to a new program?

There is no program that will take only one or two hours. You have a whole new operation that might last six hours, and we might run, in that case, into four hours of overtime, which might be more costly than starting with a new crew that could finish it. And at that point I would like to ask our operation experts to deal with this at greater length.

Mr. McLEAN (*Charlotte*): Does this \$400,000 increase or decrease your expense under your annual wage.

Mr. OUIMET: No.

The CHAIRMAN: You must pay overtime. How much overtime do you pay?

Mr. OUMET: I think on the average it must run about eight or seven per cent, but in certain crafts, or certain particular lines of work, it is a lot more than that.

The CHAIRMAN: What is the overtime in dollars for the whole corporation in any year?

Mr. CODERRE: For the year in question the overtime was \$3.5 million.

The CHAIRMAN: Over about \$50 million?

Mr. OUMET: Over a \$50 million payroll.

The CHAIRMAN: I think we had better digest that figure.

Mr. TARDIF: Mr. Chairman, perhaps I am asking more than my average number of questions, but I am not going to insist on overtime for it. This calculation for non-productive payment apparently is only for the technical section of the C.B.C. I wonder whether a calculation has been made for non-productive payment for programs that are produced and never used?

Mr. HENDERSON: Mr. Tardif, you will find particulars of some of that beginning at page 125 of the report you have in front of you which deals with the annual report of the corporation. This covers the year ending March 31, 1965, and as you turn the pages you will find at the top of page 128 the write-off. You will see programs completed, in process of production, abandoned, cancelled because of deficiencies, film rights expired—that would be the type of information you are looking for, I think—at the top of page 128.

Mr. SCHREYER: Mr. Chairman, I take it that the problem which we are discussing, the paying of moneys for non-productive time to behind camera crews, has mostly to do with artistic production time. Surely the problem does not arise in the same magnitude with regard to regular scheduling, newscasting, and so on.

Mr. CODERRE: As I said earlier, this is personnel associated with studio production, actual program production, as opposed to those in the service area.

Mr. OUMET: Mr. Chairman, I would appreciate it very much if the Committee could hear from Mr. Gilmore on this.

Mr. J. P. GILMORE (*Vice-President, Planning, C.B.C.*): I would like to make one or two small comments. Firstly, on Mr. Stokes observation, we are well aware of the problems,—as both Mr. Henderson and Mr. Stokes know,—that are inherent in the production of two to three hundred thousand different programs a year. I think if you look at the magnitude of that, and in terms of a network operation which is the comparison with the American network that we have to draw because we are doing the same sort of original production work which is unique to Canada, then you have the background to the problem.

We have drawn the example of the six-hour scheduling problem, where you crew a studio and you are only able to use that crew for six hours per day. We establish 40 hours, I might add, as a point of reference beyond which we must pay overtime, and I think that is the key to the guaranteed annual wage problem. We schedule as closely as possible up to that 40 hours within the exigencies, as Mr. Ouimet has explained.

Now, if you have, in Studio B in Toronto, a six-hour program five days a week, it would be completely uneconomic to take the same crew of eleven men, let us say for the purpose of argument, and assign them to another six-hour show. If you bring in a different crew it is much cheaper. You start their work day after the first crew work day is finished. I do not say that is all-embracing. I say that on the average that is the condition.

The second condition we run into, which I think is inherent in our business, and which contributes largely to this inability to hit it on the nose of scheduling 40 hours, is the type of thing that we have had this year on three occasions, and I would like to cite them as examples.

You may recall that we did quite a comprehensive coverage of the Churchill funeral. Now, this required a completely flexible set-up. To be able to do that production in London, originated from Ottawa, Montreal, Toronto or Halifax, we had to maintain crews ready to do the reproduction of the tape recordings which we were jet-planing over to Canada from any one of those four locations. Now, naturally, only one was chosen. It ended up as Halifax and in Halifax we originated not only for ourselves but for the American networks.

That is the kind of flexibility on a major occasion which results in a great deal of overtime; the shipping of equipment at the last minute when we know the weather forecast, when we know where planes will land. That is an unusual event, but in the launching of—I think it was Gemini 7—there were three aborts on that mission, and we had to cover these just as though they were actual broadcasts. We crewed for each of them. Each time we had to stand down after going right up to just about zero countdown. We were not unique in that. Walter Cronkite, one of our colleagues at C.B.S., stood by for about 28 hours, and I assure you he had a complete crew behind him when you saw him on the screen.

Now, this is the kind of exigency that we have to negotiate, and I come back to this point, that only beyond 40 hours are we talking about overtime, and that is the turn figure—the figure beyond which we compute overtime. It is not, really, a daily or a weekly figure as such. This is pretty much the business we are in.

Mr. SOUTHAM: Mr. Chairman, my question is supplementary to what Mr. Baldwin asked a few moments ago and was answered by Mr. Stokes, and Mr. Gilmore, I think, has answered it in part. I would like to ask a question in connection with Mr. Stokes' specific example of one member of personnel having a shortfall of sixteen hours, is there a possibility that the C.B.C. is overstaffed? That is, with so many personnel under contract for, say, a year at a 40-hour week, do you find yourself with a surplus of crew on any particular production? I know I have had the opportunity of being in a few of the studios where there has been production going on, and sometimes I am amazed at the number of people that appear to be standing around, and do not seem to be doing very much or accomplishing very much, and yet they are part of the team.

In fact, I have had a visitor with me who raised his eyebrows at this particular thing—what are these people doing? I can well understand where you might have a considerable amount of shortfall that we will be paying for,

and the question came to my mind, before we ever brought it up this morning here are we overstaffed?

Mr. GILMORE: The last time this was raised, Mr. Southam, we did run into a problem of that nature, and we inquired immediately into the circumstances of the actual show. The actual show was one in which we had a training crew observing. This caused a considerable amount of comment. I had another comment from a former minister of finance of exactly this nature. He had been doing a free-time political broadcast and he counted 28 people who were, I think standing around. That is right. They were a 28-person class from the Ryerson Institute who were observing that night. I came up with the idea that we should label people so that we know they are C.B.C. production crew at the given time.

But to come back to this problem, you have certified bargaining units here who have been certified for certain activities. The technical crew cannot move staging equipment. That must be a crew from the other union which is certified for stage work. On stage carpentry is the same. You have this in legitimate theatres. You have it in all theatres where you must have a certain stand-by crew, as it were, in case something happens. We do not have that at all. We have as compact a crew as we can get to do the job. In comment on that staffing problem, we maintain an absolute check at all times on our scheduling, and particularly in the production units and in the technical side.

Checking this, I took an example from the Toronto operation because this was one that was looked at by the Auditor General's staff. We had at the time 11 crews there. This was at the time these figures were produced. After examining as closely as possible the output of work hours for those crews in a sample week, crew No. 1 averaged 35½ hours; crew No. 2 averaged 44 hours, crew No. 7 averaged 36.15 hours. That is just a random check. That is as close as we can hit.

You will notice one was over the 40 hours, two were a little under.

In comment on the number of people doing a production, I can only tell you that we are in the entertainment business whether we are doing a variety show or a free time political broadcast, or a very big special event, and we must crew for a minimum output of work. Beyond this I am reasonably satisfied that we are not overcrewed, given the jurisdiction that the Canada Labour Relations Board has authorized. That is a matter of law. We must adhere to those bargaining agreements.

Mr. SOUTHAM: Mr. Gilmore, the statement was made a few moments ago that for one specific year, the overtime amounted to \$3½ million. Is this an average yearly overtime figure or did this just happen to be an extreme case?

Mr. GILMORE: Mr. Chairman, that is about average, but I want you to realize that when we took the example following on Mr. Stokes' comment we were not dealing there with the average situation of production. You must remember that we do a tremendous amount of live production in Canada. On the French network perforce we must do it. There is no other source of Canadian programming in the French language or programming in the French language. We do about double the amount on the French network that we would do anywhere else for this reason.

When you are doing programming of the quality of our programming—and I give you an example, “Show of the Week” last night, the Wayne and Shuster show—you do not crew that for six or eight hours; you crew that from about six in the morning to taping time which may be ten in the evening. Inherent in this kind of thing as in the Wojeck series, as in anything of a major nature, the large Festivals, as Mr. Coderre said earlier you must keep those crews producing as a production unit on those shows and their days are usually about ten hours. This is the inherent problem of broadcasting. You find that on the American network it is exactly the same; and in the B.B.C. it is exactly the same.

The CHAIRMAN: We will have two more questions, then we will adjourn. I do not like to keep you after eleven. Some have other appointments. Just before we leave Mr. Gilmore’s explanation, would it be a fair assumption to say that C.T.V. would not have as much as \$450,000 worth of non-productive time. Would private enterprise company, allow as much of this non-productive time as the C.B.C?

Mr. GILMORE: I would have to answer you that I have no knowledge of C.T.V.’s union agreements, if any, but I can tell you what C.B.C. has, and I know that agreement very well.

The CHAIRMAN: We should compare it with a Canadian operation.

Mr. GILMORE: I do not think we can. There is no equivalent operation here.

The CHAIRMAN: Would they not have the same labour contracts?

Mr. GILMORE: Not necessarily.

[Translation]

The CHAIRMAN: We will hear Mr. Leblanc, Mr. Noble, and then Mr. Bigg. I am afraid we will have to close at that point.

Mr. LEBLANC: Thank you, Mr. Chairman. The case that we are discussing at the present time is to be found in other industries besides the T.V. industry. I believe we have identical cases when we speak of air transport, as far as the air crew is concerned. In that case, the pilot has a certain number of hours to work and he has a guaranteed annual wage. However, because of weather conditions and other factors, he often does not perform the actual number of hours, but he is paid for a certain number of hours worked or not worked. This is true also of trucking and of railway transportation. I do not think then that this is peculiar to the T.V. or radio industry, I think we can find other industries; in that case, I might be wrong.

Mr. OUMET: I believe you are perfectly right, Mr. Leblanc.

(English)

Mr. NOBLE: Mr. Chairman, there is one thing I have not clear in my mind yet, and that is this. Would it be possible for an employee to work less than 40 hours a week and be paid overtime for that week, by way of working more than eight hours in any given day, or working during meal hours?

Mr. CODERRE: Yes.

Mr. NOBLE: Is this possible?

Mr. CODERRE: Yes.

Mr. NOBLE: He can work less than 40 hours and get overtime?

Mr. CODERRE: Right. Look at it as premium pay, not overtime. It is premium at this point.

Mr. NOBLE: You are paying for a privilege.

Mr. OUIMET: This is not unreasonable, I suggest, if you compare it with the average industry where it is possible to schedule people for very regular hours. They start at eight o'clock and they finish at four o'clock, so much time for lunch and that is that. There you have no problem. In the case of the corporation it is quite possible that deliberately, there is no other choice, a whole crew of people may be scheduled to come in at eight o'clock and continue until eight or ten in the evening. Obviously, we have to pay a premium for that kind of work, and you cannot compensate for this very large amount of extra time required by saying, "we will give you a few hours off at the end of the week". The repetition of days of ten hours or twelve hours, and in certain cases it may go much higher than that, in special events, for example, is a privilege that we are getting and that we have to pay for.

Mr. NOBLE: They negotiated that.

Mr. OUIMET: They negotiated that.

The CHAIRMAN: Mr. Bigg, and then we will adjourn.

Mr. BIGG: I understand that a great deal of the C.B.C. activity is routine, and this problem does not arise in a great deal of your activity. Therefore the seven per cent of overtime, as an explanation, it seems to me, is covering up really of what is actually occurring in certain types of your operations. I would suggest that perhaps it was 35 per cent in certain parts of your operation and in others next to nothing. I am still worried about the fact that perhaps we are contracting ourselves into a position where very little is done during the routine day in certain programs, and then we are stuck with this habit of overtime. I just would like to put out the red light again to say that we want you people to make a special effort to save our tax dollar in this regard. If you think there are abuses we will certainly back you up here.

The CHAIRMAN: Mr. Bigg, I think you have summarized it very well there. Just before we adjourn, I want to thank Mr. Ouimet and his officials for coming, and also, we well recall your appearance before our Committee in July 1964 when we made certain recommendations to your corporation and you have followed through on four of those. We thank you for that. There is just the fifth one yet. The position, as you will recall, is that we would like as members of parliament to have a memorandum laid before us in the house, before your estimates come up for approval, so we have a better idea of what we are approving in the form of estimates. However, this will be forthcoming no doubt. We thank you for coming.

On Thursday morning, gentlemen, we will meet at the west door of the main block of the Parliament Buildings at 9.45 a.m. and you will be taken to your individual places of choice.

The meeting is now adjourned.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

TUESDAY, NOVEMBER 1, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. J. R. Douglas of the Auditor General's Office; Mr. G. W. Hunter, Deputy Minister, *Department of Defence Production*; Mr. J. R. Brisson, President, *Canadian Arsenals Limited*; Mr. E. B. Armstrong, Deputy Minister, *Department of National Defence*; and Mr. A. G. Bland, President, *Defence Construction (1951) Limited*.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Prittie,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 1, 1966.

(33)

The Standing Committee on Public Accounts met this day at 10.00 a.m. The Vice-Chairman, Mr. Tom Lefebvre, presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Forbes, Gendron, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Prittie, Stafford, Tardif, Thomas (*Maisonneuve-Rosemont*), Tucker (13).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Cross, Douglas, and Laroche of the Auditor General's office; *From the Department of National Defence:* Mr. E. B. Armstrong, Deputy Minister; Dr. J. C. Arnell and O. D. Turner; *From the Department of Defence Production:* Mr. G. W. Hunter, Deputy Minister; Mr. J. R. Brisson, President, *Canadian Arsenalns Limited*; Mr. A. G. Bland, President, *Defence Construction (1951) Limited*; and Mr. J. C. Rutledge, Director, Shipbuilding, Defence Production.

On motion of Mr. Tucker, seconded by Mr. Flemming,

*Agreed,—*That the draft agenda of proposed Committee meetings be adopted

The Vice-Chairman read a letter from the Secretary of State, the Honourable Miss Judy LaMarsh, respecting action taken by the Canada Council.

On motion of Mr. Forbes, seconded by Mr. Flemming,

*Agreed,—*That this letter be attached to today's Minutes of Proceedings and Evidence. (*See APPENDIX II.*)

The Vice-Chairman introduced the Deputy Ministers who in turn introduced their accompanying officials.

Mr. G. W. Hunter, Deputy Minister, Department of Defence Production and Mr. J. R. Brisson, President, Canadian Arsenalns Limited were interrogated on the following paragraphs form the Auditor General's Report 1965:

Paragraph 59—*Disposal of Surplus Plant*

Paragraph 60—*Defence Production Revolving Fund*

Respecting Paragraph 59, Mr. Brisson agreed to supply further information by letter to be attached to the Minutes of Proceedings and Evidence when received from Mr. Brisson.

Moved by Mr. Bigg, seconded by Mr. Forbes, it was resolved,—

That with respect to the Defence Production Revolving Fund, Parliament ensure that any surplus be returned to the Consolidated Revenue Fund each year.

Discussion ensued and the motion was allowed to stand over pending further information from Mr. Hunter and Mr. Henderson.

Mr. E. B. Armstrong, Deputy Minister, Department of National Defence, Mr. A. G. Bland, President, Defence Construction (1951) Limited and departmental officials were interrogated respecting the following paragraphs from the Auditor General's Report 1965:

Paragraph 73 (3)—National Defence administrative regulations and practices (also Appendix 1, item 15)

Paragraph 74—Questionable charge to Vote 15 of the Department of National Defence

Paragraph 76—Additional cost resulting from failure to exercise option to renew agreement for the supply of natural gas

Paragraph 78—Excessive payments to municipal school board

Paragraph 79—Cancellation of Canada-United States radar construction program

Paragraph 80—Additional cost of constructing runway and access taxiways at R.C.A.F. Station, Chatham, N.B.

Paragraph 81—Cost of terminating an agreement and lease of married quarters, R.C.A.F. Station, Grostenquin, France

Paragraph 82—Cost of terminating leased communication facilities

Discussion continuing at 12.25 p.m., the Committee adjourned to the Call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, November 1, 1966.

● (9.50 a.m.)

The VICE-CHAIRMAN: Good morning, gentlemen. We have a quorum. Before we introduce our witnesses this morning, I would like to have someone make a motion that we approve the draft agenda that was presented by the steering committee as our agenda for the coming few months. I believe all of you have a copy, if not Mr. Bennett will give you one. I am sure you have had time to look it over and if you agree with it, it would be in order for someone to make a motion that we adopt it as our agenda.

Mr. TUCKER: I so move.

Mr. FLEMMING: I second the motion.

The VICE-CHAIRMAN: All in favour?

Motion agreed to.

Mr. TARDIF: Now that the motion has been adopted can we assume that the agenda will be lived up to?

The VICE-CHAIRMAN: Yes, I am sure it will be if we can obtain a quorum; this morning we almost missed it.

Now, we have a letter that was addressed to Mr. Hales by hon. Secretary of State, Miss Judy LaMarsh. I would like to read it into the record for your comments; the Auditor General also has some comments to make on the same subject.

Mr. Alfred D. Hales, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Canada.

Dear Mr. Hales:

Thank you for bringing to my attention the section of the Third Report of the Standing Committee on Public Accounts which refers once again to the question of whether or not the Canada Council Act provides sufficient authority for the action which has been and is being taken by that Council with regard to the distribution of the funds which were made available under the University Capital Grants Fund.

You will appreciate that this is a subject which I come to with no prior knowledge of the circumstances, but I am informed by the present Chairman of the Canada Council that they have over the years operated on the basis of a ruling from the Department of Justice that their actions were in every sense legal.

However, I also appreciate that the Public Accounts Committee has come back to this point repeatedly and I do intend to recommend to the Government that we introduce at an early date an amendment to the Canada Council Act designed to make it perfectly clear that the legislation supports legally the judgments which have been made by the Canada Council in the distribution of these funds.

Yours sincerely,
Judy LaMarsh.

Perhaps Mr. Henderson could give us a little background on this, and his opinions, before the members discuss it.

MR. HENDERSON: Mr. Chairman, Mr. Hales was good enough to send me a copy of this letter only the other day, and I should tell the Committee that I have advised Mr. Hales concerning its contents. I am sure it is satisfactory to all members to know that the Secretary of State proposes to take some steps to secure an amendment to the Canada Council Act.

With regard to the statement contained in her letter that she was informed by the Chairman of the Canada Council that they had an opinion from the Deputy Attorney General that procedures that they were following were perfectly legal, I reminded Mr. Hales that I am in possession of a legal opinion from the Deputy Attorney General dated in 1962, when this matter came up, which gives an opinion to me quite to the contrary. I, therefore, presume that Miss LaMarsh may have been misinformed on this point and I accordingly sent a copy of that opinion to the Chairman and he no doubt will wish to draw it to the attention of the Secretary of State in due course. I do not know whether members have any questions on that point.

MR. FORBES: Could you explain just what distributions they were making that did not comply with the act?

MR. HENDERSON: This has to do with the distribution of the accumulated profits, Mr. Forbes, in the university capital grants fund. You may recall the point has come up in connection with this Committee's examination of the Canada Council in the last several years, in particular, this past summer.

The money is being distributed pursuant to what is known as the "hotch-pot" formula, rather than in accordance with the provisions of the Canada Council Act. I had questioned the action of the Council to distribute it in this manner. As just explained, the Deputy Attorney General gave me an opinion in 1962 which supports my position. Accordingly, I have been qualifying my certification of the accounts of the Canada Council for the last several years, including this past year, and must do so until such time as this is resolved.

The recommendation of your Committee again this summer, your third report 1966, was that the government take steps to introduce an amendment to the Canada Council Act designed to make provision for the manner in which this money is being distributed. The Chairman followed this up with the Secretary of State and wrote to her to ask her what action she was taking pursuant to this Committee's recommendation in its third report, 1966, which you will recall was presented to the House last June. This is the answer of the Secretary of State.

The VICE-CHAIRMAN: Are there any further questions on this particular letter? Before we introduce the witnesses, I want to make a point.

Would somebody move that the letter be attached as an appendix to today's proceedings?

Mr. FORBES: I so move.

Mr. FLEMMING: I second the motion.

Motion agreed to.

The VICE-CHAIRMAN: On November 8, we will be examining the accounts of the National Harbours Board and to help you in your homework the Auditor General will be sending to each member the Auditor General's long form or background report of the National Harbours Board for the year ended December 31, 1963 and the year ended December 31, 1964. You will be getting this in your office within the next few days.

Our witnesses this morning are Mr. E. B. Armstrong, Deputy Minister of National Defence; Mr. G. W. Hunter, Deputy Minister of Defence Production; and Mr. A. G. Bland, Chairman, Defence Construction (1951) Ltd.

If these gentlemen would like to introduce the other members of their staff who are with them we would be happy to have them do so.

Mr. E. B. ARMSTRONG (*Deputy Minister of National Defence*): Here with me today is Dr. Arnell, the Assistant Deputy Minister of Finance, and Mr. Turner, down in the far corner; and Mr. A. G. Bland, President, Defence Construction Limited.

The VICE-CHAIRMAN: Mr. Bland, do you have other people from your department?

Mr. A. G. BLAND (*President, Defence Construction (1951) Limited*): No, I do not, Mr. Chairman.

The VICE-CHAIRMAN: And Mr. Hunter, Deputy Minister of Defence Production.

Mr. G. W. HUNTER (*Deputy Minister of Defence Production*): With me today is Mr. J. R. Brisson, President of Canadian Arsenal Limited, and Mr. J. C. Rutledge on my left is the Director of Shipbuilding, Department of Defence Production and Industry.

The VICE-CHAIRMAN: Thank you, gentlemen, and welcome to the Committee.

Our first witness will be Mr. G. W. Hunter. As we have only two items of interest to him, we will not hold him up all morning. These are paragraphs 59 and 60 in your 1965 report.

Paragraph 59 deals with a disposal of a surplus plant, sometimes referred to as the "Valleyfield Give Away". As you will see in this paragraph, the original cost was \$18,210,000 and it was sold to the C.I.L. Company for \$1,750,000, and had been appraised at a total value of \$7,897,000. If you have any questions on this particular paragraph, you may ask them. Perhaps before we do this we could ask Mr. Hunter to give us a little background on it. This is paragraph 59 on page 31.

59. *Disposal of surplus plant.* In March 1964 the Minister of Defence Production was authorized to solicit and negotiate bids for the sale of three plants operated by Canadian Arsenals Limited. Bids were invited for each of the plants, the prospective purchaser being required to demonstrate a capability to manage manufacturing facilities involving military equipment, state his intention to retain the defined military explosive manufacturing capabilities and indicate his proposed use of the remaining plant capacity. Only the DeSalaberry plant was sold.

Only one bid was received for this plant which is located on 1,094 acres fronting on the St. Lawrence River near Valleyfield, Que. The original cost of the plant's land, buildings, machinery and equipment was \$18,210,000. Over the past six years its operations have resulted in losses averaging \$1.5 million annually, exclusive of any charge for depreciation of its buildings and equipment, and departmental officials estimated that future operating losses would be about \$1 million annually.

In May 1964 an independent appraiser advised Crown Assets Disposal Corporation that a fair market value of the property, exclusive of machinery and equipment, would be \$6,492,000, subject to the qualification that if any use of the property, other than the use to which it is now put, were to be contemplated by a purchaser, then the value would be but a fraction of the figure mentioned because most of the buildings are one-purpose structures. At the same time machinery and equipment in the plant were separately evaluated on an estimated recovery basis by officials of Canadian Arsenals Limited, Department of Defence Production and Crown Assets Disposal Corporation at \$1,405,000. This placed the total appraised fair market value of the land, buildings, machinery and equipment at \$7,897,000.

The company that had submitted the bid planned to use the facilities for manufacturing propellants and military high explosives and to develop suitable propellants for commercial ammunition. The company also proposed to investigate the commercial application of that part of the facilities designed for the production of nitrocellulose and nitric acid but did not contemplate that its foreseeable production would ever fully utilize the plant capacity available.

Taking into consideration the appraiser's qualification in valuing the property, the fact that the company could not utilize the full plant capacity and that a major portion of the plant could not be commercially utilized without substantial conversion, it was concluded that the fair market value of the land, buildings, machinery and equipment should be reduced from \$7,897,000 to \$4,137,000.

The company offered to purchase the land, buildings, machinery and equipment for \$1 million and to pay \$757,000 for the active inventory on the premises. It also indicated that, as a condition of sale, it was prepared to retain the skills and capabilities of the plant to produce defence supplies for a period of ten years without cost to the Crown and to retain items of equipment and special tooling essential to such production and to accord first priority to defence contracts. The company's offer was accepted and the sale completed on this basis on March 31, 1965.

Mr. HUNTER: Thank you, Mr. Chairman. The decision to sell certain of the Canadian Arsenals plants was reached in late 1962 or early in 1963 when it was found that to maintain these plants—there were seven which had been retained after World War II—the cost of operating them was substantially in excess of the value of production that we received out of them. Yet, it was necessary for us to maintain these facilities for the requirements of the Department of National Defence.

It was, therefore, decided that for purposes of, first, relieving the Crown of the annual cost of maintaining them solely for military purposes; second, to increase employment if possible; and third, to stimulate the economies of the various areas in which they were located we would call bids from right across Canada from any industries which we felt were, firstly, competent to run them, and secondly, were generally in that line of business and would, we felt, maintain them the way we wanted it.

This Valleyfield plant, to give you an example, for the five years prior to this sale had cost the government, aside from depreciation, in 1959-60, \$1.8 million; in 1960-61, \$1.5 million; 1961-62, \$1.98 million; 1962 to 1963 \$1.3 million; 1963-64, \$1.2 million and the estimated deficit in the year in which we did sell it, had been estimated at \$1.1 million. As it happened we received only one offer for this plant although we did make inquiries from other firms who had not bid to see if they would have been interested and received no affirmative bids. The one which we had was from Canadian Industries Limited for \$1 million plus the value of the inventories of work in process, was reasonable.

One of the main stipulations in our request for a bid was that the bidder would retain for 10 years, at no cost to the Crown, the skills and capability to produce military explosives, the military engineering capability, that would keep their staff competent to do this; to retain items of equipment and special tooling necessary, and to give the government priority in production of military items over commercial items. This was a very strong tie on the buyer. He realized that he would have to face, until he was able to replace this work, the kind of deficits which we ourselves had faced because he was taking it over. It was, therefore, felt that the bid of \$1 million plus the knowledge that for ten years, at no cost to the Crown we would have this facility with the option of extending it beyond 10 years if we wished. We felt, therefore, that the sale price of \$1 million plus, as it turned out, \$757,000 for inventories, was a reasonable price.

The VICE-CHAIRMAN: Do you think, sir, you would have had more bids if no strings had been attached to the sale at all?

Mr. HUNTER: I am sure we would have had more bids, but the facts are that this was a very key facility for the manufacture of certain military propellants for which we felt we must maintain the capability in Canada with this skilled group of people we had. If we had thrown it open to, say, the aircraft industry or anyone else, chances are we might have received a number of other bids, maybe more attractive bids, but we did not feel that it would meet these conditions, and in the long run, be as much in the public interest as this was.

The VICE-CHAIRMAN: There is no other plant in Canada so equipped as this one is?

Mr. HUNTER: I think it is safe to say no, there is not, sir.

The VICE-CHAIRMAN: Mr. Henderson, do you have anything to add to this particular paragraph?

Mr. HENDERSON: Mr. Chairman, I find Mr. Hunter's description of the facts perfectly correct and in accordance with our understanding. It seemed to me that one of the interesting aspects of this particular sale had to do with the fact that it consisted of over a thousand acres of valuable real estate which, as you will have noticed from what he said, can be disposed of as the purchaser sees fit at the end of 10 years. I should have thought a proper question to put to Mr. Hunter might be why the government would not have retained ownership of the land and leased all of the facilities to Canadian Industries to operate on this basis, having regard to the fact they have another plant quite close by.

● (10.10 a.m.)

Mr. HUNTER: Mr. Chairman, I am told by the President of Canadian Arsenals Limited that the retention of the land was necessary in order to meet safety regulations which require, when you store any kind of this propellant, a certain area for magazines. The Auditor General is quite right, they have other magazine areas, but I believe they are too distant from the plant. Is that not right. The plant, I am told is in Beloeil 40 miles away and that while you are manufacturing on this scale, it would seem that you would need to have some magazine storage, at least, in the immediate vicinity. I think the second point, if I might make it now, is that we sold this plant to see if we could increase the employment in the area, and particularly in this plant. This company has more than met our fondest hopes, I would say, in that they have risen from an employment of some 200 people, who were the key people for the operation we needed, to, I am told, it was 650 people yesterday. They have spent over \$3 million in new equipment to do the commercial things that are compatible with what they are doing for us on a military basis, and it would seem hardly likely that they would be considering moving out in 10 years or even 20 years when they have spent \$1 million to buy the plant and now a further almost \$4 million in capital equipment to improve it. We feel that that condition was met and that actually was certainly one of our hopes in their taking it over.

The VICE-CHAIRMAN: Are they manufacturing explosives now for the Department of National Defence?

Mr. HUNTER: Yes they are meeting all our requirements, but as Mr. Brisson just pointed out to me, this firm does a large business in explosives of a commercial nature. They therefore have a large research operation which keeps this plant in the forefront of the state of the art, which is continually changing like any other. We really feel this is an intangible value that we got from the disposal of this plant, that might not show in dollars and cents, but it keeps these people who have been making military propellants for 25 years for us, right up to date with the work being done by C.I.L., both in sporting type ammunition and in making certain of the component parts for blasting and commercial type explosives for mining and so on.

The VICE-CHAIRMAN: In what year was this plant originally built?

Mr. HUNTER: In 1940.

The VICE-CHAIRMAN: At a cost of \$18,210,000. Is that correct?

Mr. HUNTER: That was the total capital cost of land, buildings and equipment.

The VICE-CHAIRMAN: The replacement cost would be much more than that now though. From 1940 to 1966, it would be double that, would it not?

Mr. HUNTER: I would not like to say, but I believe this plant, as all other munitions plants, was built not really of the same type of construction as you would perhaps build today. A lot of these, you can correct me, Mr. Brisson, were wooden type buildings put together with just about what you could get in 1940, when there was a shortage of all kinds of building materials.

Mr. MUIR (*Lisgar*): Mr. Chairman, am I correct in assuming that there were three plants to be sold and only one was sold?

Mr. HUNTER: There were three plants offered for sale at the time. The Val Rose plant in Quebec has been sold, actually, and will be taken over by the new purchaser on the 1st of December of this year. The third plant we had advertised for sale was the Long Branch plant, which made small arms. We did not receive a bid that we felt met our requirements and we have not gone ahead with that one.

Mr. MUIR (*Lisgar*): Is that third plant still being operated by the government?

Mr. HUNTER: It is being operated by Canadian Arsenals Limited, yes sir.

Mr. MUIR (*Lisgar*): For the government?

Mr. HUNTER: Yes, for the government. It is a Crown corporation, you know.

Mr. BALDWIN: Do I take it then that as you limited the period of time in respect of which you requested the commitment of the purchaser, ten years, it indicated that when that ten year period had expired the product which at that time it was producing would no longer be required for national defence purposes? In other words, this was a commodity which was wasting in terms of its continued use.

Mr. HUNTER: Sir, the period of retention was ten years, subject to further extension by the Minister so that we really have the option and have the option to extend it, and we feel we would have no trouble, if the requirements of national defence are still for this type of item, to extend it.

Mr. BALDWIN: In other words, the agreement provides that at the option of the government, as exercised by the minister, this commitment of the commercial corporation which took over can be extended from time to time to any period at all?

Mr. HUNTER: I think, sir, it says it could be extended, subject to negotiation by the minister. I think it might well take a further re-negotiation in regard to the conditions prevailing at the time. They might tell us that the cost of maintaining this had been much greater than they expected and for other reasons, perhaps their new capital equipment, they might come to us and say they might like other terms but they have agreed to extend it subject to negotiation with us.

Mr. BALDWIN: I see. If conditions were such that the minister saw fit to exercise this option, it would then be subject to negotiation involving the expenditure of more money by the government.

Mr. HUNTER: It might be. That is my understanding.

Mr. BALDWIN: I have one other question then. Are you prepared to indicate the value in dollars of the purchases which have been provided to the government from this plant since that time?

Mr. HUNTER: The total production for us, sir? Perhaps Mr. Brisson could give you an estimate, I do not have those figures.

Mr. BRISSON: Based on the long term forecast, the average government requirement would be about \$750,000 a year.

Mr. BALDWIN: But how much say, in the last two years.

Mr. BRISSON: This has been the average in the last few years also.

Mr. BALDWIN: When was the plant transferred?

Mr. BRISSON: The plant was taken over on the 1st of April 1965.

Mr. BALDWIN: Have you figures indicating what was the amount of production which the government required and took from that plant for the next following year.

Mr. BRISSON: I do not have exact figures. Each contract varies every year, but the average is about \$750,000. We could get the actual figures.

Mr. BALDWIN: Would you mind getting that and furnishing it to the Clerk. How much in dollars and cents for one year from the time of take-over to the anniversary of that year.

Mr. BRISSON: We will supply the figures.

Mr. BALDWIN: Thank you.

Mr. MUIR (*Lisgar*): Mr. Chairman, in the appraisal of the plant is the value of the land considered, or was that more or less thrown in because it had to go with the plant?

Mr. HUNTER: Well, sir, the value of the land was taken, I am told, at the latest price of sales in that area for that size of property.

Mr. MUIR (*Lisgar*): Would you have any idea what the total value of the land would be, the appraised value?

Mr. HUNTER: We will look and see if we have those figures. The appraisal by the John Pitt Company for land was \$952,845.60.

Mr. MUIR (*Lisgar*): Do you think it would have made any difference to the sale had the government said to the buyers, we intend to keep this land. As long as you go through with your contract with us and you need the land it will be made available to you, but we will not sell it.

● (10.20 a.m.)

Mr. HUNTER: I think with the plans the company had to expend \$3 to \$4 million, which they had spent already, they would have been reluctant to take it on that basis. I think we made the best deal we could in giving them this land and hoping, and as we see it did happen, that they would invest their own money in it and make it a better and more modern plant.

Mr. MUIR (*Lisgar*): In other words, you think it turned out all right. Had the company wanted to, they probably could have made quite a nice profit out of it, I imagine?

Mr. HUNTER: I would not be too sure, sir. This land was valued at the current market value of land in that area, based on the most recent sales. That, I understand, is the appraisers method of doing it. I was told that is what they did.

Mr. MUIR (*Lisgar*): They actually did not pay for the land anyway. They paid you less than the plant was worth and the land was more or less thrown in. This is what I am trying to make out. It probably worked out all right but they apparently intended to expand and go ahead. It seems to me there was no safeguard in the contract as far as the government was concerned.

Mr. HUNTER: Sir, they agreed to retain the facility for a minimum of ten years at no cost to the Crown and to retain proper storage facilities. Mr. Brisson tells me that it is necessary to have approximately that much land, in accordance with safety regulations of the government regarding storage of ammunition and explosives.

Mr. FORBES: I have a supplementary question. Did the government have ammunition stored on this acreage at the time and are they required to maintain this ammunition in safe condition?

Mr. BRISSON: Yes; at the time of the sale there was a work-in-process inventory and some stores there which the company bought and, of course, is retaining on behalf of or for the Crown in these magazines.

Mr. FORBES: I think that explains it.

Mr. BRISSON: It should be noted that this plant, though 1100 acres as it says, seems a very big plant, the process or manufacturing of explosives calls for a large number of small buildings scattered all over a wide area for safety purposes: the same way with magazines. Magazines are small buildings in which you store a maximum of 100,000 pounds but then it has to be at least 2,000 feet from another magazine which stores about the same quantity. A look at this plant from the air shows a wide area with small buildings scattered all over the place. All that land is valuable when it is used as land but it is tied into this process. It cannot be utilized for anything else but manufacturing of explosives. So, the main portion of that land cannot be disposed of nor detached from the main operation. This is why the actual value outside of the manufacturing of explosives is about nil because it cannot be used otherwise.

Mr. PRITTIE: Is this not an area of increasing land values for industrial lands?

Mr. BRISSON: The plant is located as Presqu'île, five or six miles east of Valleyfield. Of course in the Valleyfield area there is quite a development already and values of land are subject to increase. However, as I mentioned, the land itself cannot be utilized in other ways; as it is tied into that process.

Mr. PRITTIE: It has been suggested that the company would not have been too interested in making a new investment if they did not have the ownership of the land. I would like to suggest that is probably not the most important point. If the company has a long enough lease term they would be willing to make it. It occurs to me that if industrial land values are rising very rapidly in the area the Crown could lose quite a bit over a 20 or 30 year period. But I suggest that a company that had a long lease of 30 years would be still willing to make the necessary investment.

The VICE-CHAIRMAN: In other words, if it was subdivided into building lots, you mean?

Mr. PRITTIE: No, I do not imagine building lots, I was thinking of the industrial land of the Valleyfield area. The point is it has been suggested the company would want ownership before they would make a substantial investment. I think there is a good deal of experience in industrial leases. The only thing a company requires is a sufficiently long time to realize on their investment.

Mr. HUNTER: Our first reason for doing this was to retain the facility at no cost for ten years. The secondary reason I gave was to increase employment and have this firm develop its commercial products. But really it was the maintenance of this facility for government use and giving us priority for a minimum of ten years, subject to negotiation thereafter. That was our main reason. As Mr. Brisson has said, that plant is spread out substantially over two square miles, and I am told in the process of manufacture it utilizes practically all of these buildings. Therefore since our first reason for doing this was the maintenance of the facility, we felt we had no choice but to get the only firm we felt was well qualified to run it, or take it over.

Mr. PRITTIE: One of the points you mentioned was the maintenance of employment in the area which is a worthy social objective and I just wondered if you are charged with that responsibility or do you co-operate with the Department of Industry. Is that simply an affiliated concern or are you charged with a responsibility to achieve this wherever you can?

Mr. HUNTER: I think, sir, we have a double responsibility. We are charged to maintain a reasonable defence production base. That is our first reason. The second reason is that our minister happens to be the Minister of Industry, so there certainly is a secondary objective to see if a plant, which we were using perhaps only to 15 per cent of its capacity, could be possibly used to a greater extent. Perhaps Mr. Brisson would like to add to that?

Mr. BRISSON: Yes. I would like to add a consideration from the Canadian Arsenals Limited point of view. In the case of CAL we also had a big problem. Mr. Hunter mentioned 15 per cent. The actual utilization of that plant was 5 per cent. This created a problem in the personnel involved in operating this plant. We had difficulty in retaining good technical people, good administrators, because we had a plant that was just about idle. One of the other reasons for increasing employment there was the healthy influence it would have on the present staff, bringing new blood into the company, new technology into the company, and bringing people to the forefront of the state of the art. This increase in employment and the products that are compatible or close to the military explosives, though not being exactly the same, was bringing all that technology in, and it was increasing the responsiveness of the group over a long number of years. It was a worry to Canadian Arsenals that, with the low volume of work, we were gradually losing the technical people that were required to operate the plant. This was also one of the effects we were looking for, in increasing employment.

Mr. FLEMMING: My question was based on the statement that as a condition of sale they considered the retention of the scale of capability of the plant was a most important consideration and that the company had agreed to maintain these

facilities for a period of ten years. My question is, was there any understanding with the company for any period subsequent to the ten year period provided the department wished to continue the arrangement or the understanding that they had with them with reference to the undertaking that they would keep the plant in condition to supply defence requirements. I am very much impressed with the argument that it is important from the point of view of the defence of the country to have the plant available. My question is, was there any understanding for any period subsequent to the ten-year period.

Mr. HUNTER: It was written into the agreement, I believe, that subject to extension by the minister. They signed an agreement with that condition in it. Therefore, they are bound.

Mr. FLEMMING: As far as they are concerned they are bound and the option is with the department?

Mr. HUNTER: Right, sir.

Mr. BRISSON: We cannot be more specific than that because we are not in a position to forecast precisely what type of requirements we will have ten years from now. These requirements might have changed considerably. Therefore, we did not want to be too specific in an agreement.

Mr. McLEAN (*Charlotte*): In the operation before you sold, it was a purely government operation for government?

Mr. HUNTER: Correct.

Mr. BRISSON: The operation there was limited to the requirements of the government and national defence.

Mr. McLEAN (*Charlotte*): When it was sold to CIL it was commercial and government?

Mr. BRISSON: That was one of the intentions, and we did ask the company submitting a proposal to also give us the proposal of the planned utilization of the plant in commercial products.

Mr. McLEAN (*Charlotte*): It is important to the CIL that they have government business and it is important to the government that they have commercial business?

Mr. BRISSON: This is correct though CIL was warned that the government business we could forecast would be limited to a very low percentage of the production capability.

Mr. McLEAN (*Charlotte*): So as far as the future is concerned it is important to CIL to have government business to keep going. And, it is important to the government to have commercial business so you keep your technical staff?

Mr. BRISSON: That is correct but as I said the probable government business in this plant will always be—I should not say always—under present circumstances, a small percentage of the overall capacity of that plant.

Mr. McLEAN (*Charlotte*): But it will be up to CIL to develop government business in order to make a profit from their commercial business. I think it was a good thing to sell the plant to CIL.

Mr. MUIR (*Lisgar*): Were we told that this plant was built in 1941 or 1945?

The VICE-CHAIRMAN: Nineteen forty, I believe.

Mr. MUIR (*Lisgar*): Did it ever operate to capacity?

Mr. BRISSON: It operated to capacity during World War II, and it was put in actual operation in 1941. Of course, from 1941 to 1945 it operated at full capacity. This was the last time. In 1950, during the Korean episode, the plant went up to about 45 or 50 per cent of capacity at the most.

Mr. MUIR (*Lisgar*): During those periods, even during the Korean war, did you average a loss of over a million dollars?

Mr. BRISSON: No; during the Korean war, as a matter of fact, we returned monies to the treasury on the operation of this and the other plants. When the volume of work increases these plants become self-sufficient very quickly and we do not require a subsidy or appropriation from the government to operate.

Mr. MUIR (*Lisgar*): From what year would you say that you started to lose money there?

Mr. BRISSON: Nineteen fifty-seven is the year that I think we started to lose money, immediately after the big orders that we had during the Korean war were completed.

Mr. MUIR (*Lisgar*): Under this set-up, did you manufacture any explosives for foreign countries, or for an ally?

Mr. BRISSON: Yes, at times we did manufacture for export to countries on contracts which were given to us through the government, that is, Canadian Commercial Corporation. We have produced ammunition and explosives for foreign countries.

Mr. MUIR (*Lisgar*): Do you think that CIL is doing that now? Do they have a contract, say, with the Americans?

Mr. BRISSON: Yes, they are producing some explosives at present for the Americans.

Mr. MUIR (*Lisgar*): Do you think it could have been made a paying proposition had the government really gone out and looked for these sorts of contracts?

Mr. BRISSON: I am sorry. Do you mean if we had gone out to get this sort of contract under Canadian Arsenals Limited?

Mr. MUIR (*Lisgar*): Yes, that is right.

Mr. BRISSON: Under the terms of reference of Canadian Arsenals Limited and the agreement that we have with the United States, as a crown corporation, we are not allowed to bid against private industry in the United States on United States procurement.

This has been brought about by the fact that we are crown-owned and, therefore, we have some advantage over private companies who have to bid to get the same contracts. Therefore, the agreement with the United States is that Canadian Arsenals Limited will not bid against private industry in the United States.

A private company, as is the case now, can bid competitively against United States companies, and, therefore, will obtain business according to their success in the competitive bids.

Mr. MUIR (*Lisgar*): Then any business that you have done with the Americans is after private industry has handled all they can handle. Is that right?

Mr. BRISSON: Generally, this is the case. When American industry has been served, or when all the sources have been used in private industry in the United States, the American government can come to us and ask for production from our plant. In these cases our capacity is available to the United States government.

The CHAIRMAN: To sum it up, it is better to take the loss now than to take a million dollar loss every year from now on, as has been done since 1957.

Mr. BIGG: I would just like to know what was the value of this land alone before they just let the buildings fall down.

The CHAIRMAN: It was \$950,000, I think.

Mr. BRISSON: Yes, the land was assessed at \$952,000. That is the straight value of the acreage, clear of any buildings or restrictions.

Mr. BIGG: So that they got all the plant and everything for approximately \$50,000?

Mr. BRISSON: Of course, we are playing on figures there. We have to remember that out of that 1,100 acres a good portion of it is not useful for anything else but growing grass. The main portion of this plant is simply a vast field where we have the problem of mowing the grass.

Mr. BIGG: My question was whether the land was worth \$950,000.

Mr. BRISSON: That is correct.

Mr. BIGG: Whether it is growing grass or not, that is what the land is worth?

Mr. BRISSON: Yes; but land is worth that only if you can resell it, and in this case the land is tied into the process. It cannot be sold or reused for anything else. Therefore, we have an absolute value of land, but it is not usable for anything else, due to the mere fact that we have there explosives present in some buildings around it.

This plant was assessed by the assessor in this way: He took the actual area of land, its location in rapport to other towns around there and the facilities—for example, the seaway which goes right by—and he assessed the land by itself. Then he put a qualification on this land, saying, "Inasmuch as this land is used for certain purposes, it is worth so much, but it cannot be used." The value is what you can actually sell the land for.

Mr. BIGG: I think it is a very valuable piece of property; that is all.

The CHAIRMAN: We will go on to item No. 60, gentlemen, on page 32, dealing with defence production revolving funds.

Mr. HENDERSON: I think the members of the Committee are familiar with the nature of a revolving fund in the government operation.

In this case, as you see, under the Defence Production Act a fund was established in an amount not to exceed, in their case, \$100 million, and the purposes are set out.

At any given time this fund is represented by cash or by materials, and the Financial Administration Act, as is stated in the second paragraph, is specific in requiring a surplus in the revolving fund to be transferred back to the consolidated revenue fund; that is to say, to the revenue of the country.

● (10.40 a.m.)

There is a similar provision to this effect in the Defence Production Act. These directions, with regard to the treatment of surpluses and deficits which occur in handling commodities within a fund, indicate to us that parliament wishes to be made aware of losses sustained in the operation of revolving funds and that it does not intend that any such losses will be absorbed by a previously accumulated surplus.

I then go on to show a surplus which is existing in the defence production revolving fund and which amounted to \$1,800,000 at March 31, 1965, and in the tabulation the nature of this surplus is described—principally, as you see, interest received under aircraft sales contracts and interest received on working capital advances.

The point I am making here is that, this surplus should be transferred over to the revenue—that is to say, to the Treasury—but the department is engaging in another practice with which we do not agree in the operation of revolving funds, and I would like to discuss that briefly with you at the same time.

This surplus of \$1,800,000, I should tell you, has not only not yet been paid back to the revenue—that is to say, to the Treasury—but the department is engaging in another practice with which we do not agree in the operation of revolving funds, and I would like to discuss that briefly with you at the same time.

Before I speak of that perhaps, Mr. Chairman, there should be some discussion on this principle of whether this money is to be left under the control of the department—these profits in the revolving fund—or whether you agree with me that it should be transferred over to the treasury.

The VICE-CHAIRMAN: Mr. Henderson, to make this clear, the specific Defence Production Act does not state that the surpluses must be transferred, but the Financial Administration Act does.

Mr. HENDERSON: That is right. The Defence Production Act is silent with respect to the treatment of any surplus.

The VICE-CHAIRMAN: But it is certainly governed by the Financial Administration Act?

Mr. HENDERSON: That is my view, Mr. Chairman.

The VICE-CHAIRMAN: That would be mine, also.

Mr. McLEAN (*Charlotte*): Mr. Henderson, what is the advantage of this revolving fund?

Mr. HENDERSON: It makes the operations easier for the department. In this particular case, under their act, they are given \$100 million for the purpose of going about their business, and they have to give a full accounting of that—how

it is being spent, what they purchased and so on. It makes for easier administration. We have revolving funds in most of the large government operations today, which I audit and which are properly accounted for. At any given time you can, in effect, produce a balance sheet of a revolving fund showing the cash that it has and how much it has in materials. In the course of operations, they will incur deficits, or they will make profits, and Parliament's concept as I understand it has been that where losses are incurred they should be taken out and Parliament should be told the nature of them and make them good by means of appropriation; or if they are making a surplus then that should go to the revenue of the country, so that the fund is kept clean; and that should be done once a year.

Mr. McLEAN (*Charlotte*): If they have a loss, then Parliament has to make up the loss.

Mr. HENDERSON: That is right.

Mr. McLEAN (*Charlotte*): If they have a surplus, it has to be credited to—

Mr. HENDERSON: That is right. If you leave those within the fund, then the department is able to offset losses against profits. In this case they have retained the \$1,800,000 to themselves which can be used for the offsetting of future losses. My point, as your watchdog of these operations, is that I think this should be brought to Parliament's attention and that you should know this, particularly where losses are incurred.

Mr. McLEAN (*Charlotte*): When you audit you show this \$100 million plus the \$1,818,000?

Mr. HENDERSON: That is right. I actually certify a balance sheet of this particular revolving fund in Mr. Hunter's department, and this \$1,800,000 shows up on that; but you gentlemen are not apt to see this unless this matter is brought to your attention in this way.

Mr. McLEAN (*Charlotte*): It gives them \$100 million plus \$1,818,000 more to play with?

Mr. HENDERSON: Precisely.

Mr. BIGG: I think the Auditor General is correct in this, that it was Parliament's intention to not have a revolving fund of more than \$100 million. And that if an excess occurs, it should be handled the same way as other revolving funds of the same kind. I would like to make a motion to that effect.

Mr. FORBES: I second the motion.

Mr. BALDWIN: I would like to ask a question.

The VICE-CHAIRMAN: Mr. Bigg has a seconder for the motion. We will have to discuss it.

Will you make the motion again so that members will be clear on this.

Mr. BIGG: I would move that, with respect to the Defence Production revolving fund, Parliament ensure that any surplus be returned to the consolidated revenue fund each year, as is common with other crown corporations.

The VICE-CHAIRMAN: We will now discuss the motion.

Mr. BALDWIN: I would like to ask Mr. Henderson if this is a related application of the principle used in all budgetary arrangements of government, that, for example, an amount not spent on an appropriation always lapses.

Mr. HENDERSON: That is right.

Mr. BALDWIN: This is an application, in a collateral way, of the same principle. In other words, at the end of the fiscal year if one department has not spent funds which have been appropriated to it, then rather than keeping it there to cover future expenditures, or losses in the ensuing year, the money goes back to the consolidated revenue fund, and there must be a new appropriation for the following year.

An hon. MEMBER: Has that ever happened?

Mr. HENDERSON: There are a number of instances of that procedure, in fact, by most of the departments. I think we covered some at the last meeting.

The VICE-CHAIRMAN: In other words, we are asking that the Financial Administration Act be adhered to.

Mr. FORBES: Has the \$100 million revolving fund proved to be adequate to meet the needs over the years, based on experience?

Mr. HENDERSON: It has been more than adequate.

Mr. FORBES: This gives further support for our motion that the surplus should be returned.

Mr. HENDERSON: It is running about \$30 million at the present time. The limit authorized is \$100 million, but actually they are operating on \$30 million. Is that not right, Mr. Hunter?

Mr. HUNTER: I do not have the figures here, but I would say that is probably correct.

Mr. HENDERSON: They can go up, too, and if they want any more authorized then it comes back before Parliament. But my point is that as they make these surpluses, they should be transferred back to the revenue and as they incur deficits they should obtain appropriations for them.

Mr. BIGG: Is this what you might call "dead money"? Perhaps it would be better if we had only a \$50 million revolving fund in peace time, so that the other \$50 million could be used for other purposes.

Mr. HENDERSON: What do you mean by "dead money"?

The VICE-CHAIRMAN: Perhaps Mr. Hunter would like to speak on this before we vote.

Mr. HENDERSON: Do you have the balance sheet?

Mr. HUNTER: I have not a copy with me, but I am sure that your figure of \$30 million is right. Mr. Chairman, may I say that these surpluses have been the subject of discussion between the Auditor General and myself for some time—and I hope it is a seemly argument—but we felt that section 58 of the Financial Administration Act did not apply to the revolving fund in this particular instance; therefore, we referred it to the Department of Justice which is our arbiter on the legality of it, and we have an opinion from the Deputy Minister of Justice that subsection 5 of section 58 of the Financial Administration Act, in

his opinion, does not apply in respect to the operation of the defence production revolving fund.

The reasons that we gave for asking that we receive that opinion were that we felt that these so-called profits were of an interim nature.

There are two main items. You will see the interest received on aircraft, \$1,111,000, and the net profit on strategic material sales, \$730,000. We actually made that \$730,000 substantially on the disposal of tin which was bought in 1952 or 1953. We held it for some time and were able to sell it at a profit of something like \$1 a pound. At the same time we bought certain other things which included raw quartz which was a strategic item at the time, but which, in 1965, might show as quite a loss.

It was our feeling that if we had to come to Parliament any time we had a loss, as we do under our act, we should be allowed to offset any losses on things we have to buy, and to cancel the profit against those which we are lucky enough to show a profit on. It would seem to me that if we turn over all our profits we will be left with a number of losses in later years and different members of Parliament who will feel that we run a pretty poor operation.

● (10.50 a.m.)

Mr. FORBES: I assume that you have the \$100 million and you have never absorbed it all.

Mr. HUNTER: These was a question of whether that was dead money or not. I would like to speak to that, too, because it really is not tying anything up, and neither is it tying up these profits of which I speak, because we pay all this money into the consolidated revenue fund, and while it would not be completely free to vote for another purpose I am sure it is available as working capital; because we do not have that money; we just have a bookkeeping entry showing that we have a profit at the moment of \$730,000, say, on tin. We can, and probably will, have a loss when we sell these quartz crystals. The art has passed us by, and there are certain other and better types of crystals now.

Mr. FORBES: Is this money now on deposit to your credit?

Mr. HUNTER: It would be in the nature of a bookkeeping credit to us at the moment, but the cash itself is in the consolidated revenue fund, I believe, and therefore available to the government to use for any purpose it wishes. We are not tying up and freezing money entirely by this, because, as I say, it is just bookkeeping.

In relation to the \$1,100,000 on aircraft sales, this represented the interest paid on the sale of four aircraft which we purchased in about 1957 or 1958, and had sold to certain American companies. But we sold only four of the five aircraft and it seemed to us that if we were left with one it was only fair to assess at least the total receipts on the aircraft against the total cost, and, therefore, until that transaction was completed we felt that we should be allowed to use all of the interest—use all of the revenue on aircraft sales—and then make a final accounting. In other words, we are just looking at this as interim accounting until we complete, say, the strategic materials and clear it all out, at which time we would be delighted to pass over any profit, or, if we have to, go to parliament for a loss.

It is the same with the aircraft section. It is not that we are asking that money from strategic materials be applied to aircraft; we have sectionalized it, and would really just like to do an accounting on the one section to show

parliament and to show the Treasury Board, or whoever we have to answer to, that we have not done a bad job. It seems to me that, if you take any profit and interest in the earlier years, you are left with the loss, say, on one item which, in my view, was part of a whole operation—the buying, say, of strategic materials.

Mr. FORBES: You have me all mixed up now. If I have a dollar, unless I have it in my pocket I cannot write down in a book that I have it.

The VICE-CHAIRMAN: Mr. Forbes, I think you made a very good statement there. Let us try to summarize this. This \$1,818,000—where is it right now?

Mr. HUNTER: As far as I know it is in the consolidated revenue fund in the Department of Finance, subject to Mr. Henderson's audit. It is available.

Mr. HENDERSON: Mr. Chairman, may I just clarify that one point. The total revolving fund is within the consolidated revenue fund; it is, in fact, part of it. The operations of the fund, as indicated by its year end figures, which I give you here, include accumulated surpluses of \$1.8 million which is free and available for transfer to the revenues of the country. Accordingly, what I am saying is that at the end of the fiscal year—it seems to me at the end of each year—whatever surpluses exist in these funds should come out and go to the revenues of the country. That becomes an accounting entry which, in point of fact, the Department of Finance will make. But they naturally defer to defence production on a matter of this kind because it is a part of their revolving fund.

I put the matter to you on the straight principle of parliamentary control of expenditure. It seems to me that a crown corporation makes its profits, certifies its accounts and you expect a dividend from it each year. If it does not pay a dividend you ask why, or at least the treasury does. If a profit like this is generated in the operations of the Department of Defence Production why should that not be transferred, and if they run a loss, why should they not come and ask for it on an annual basis. If it is within the year, of course, that is different, but let them by all means do it. Credit will be given where credit is due; it is as simple as that.

Mr. FORBES: Yes; but if you were running an organized business and somebody gave you a credit for \$100 million, once you had earned \$118 million this would indicate that you were now capable of running your own business and then you would not require the guaranteed credit; so that they would operate on their own. This is the principle, I presume, that Mr. Hunter is working on.

Mr. BIGG: When I said "dead money" I meant exactly what the Auditor General has explained. We vote \$100 million and as far as I know you cannot do that twice with the same \$100 million—you could not put it into housing or into more defence.

Mr. HENDERSON: You only draw \$30 million of that, you see.

Mr. BIGG: If you get \$1.8 million profit then you increase it. I call it "dead" money; instead of having the \$1.8 million cash available for other purposes you have more than \$100 million tied up as far as parliamentary appropriations are concerned.

I still think it is worthy of consideration that this fund may well be over-capitalized. If we are getting along on \$30 million—and you could make any kind of prediction over the next five years on whether more is going to be needed—surely you could release \$50 million for other purposes. It is not that you are going to make any money out of it, but it is available for the budget. Mr. Sharp, or whoever happens to be in charge of the budget, will say: “I have \$50 million more that I can put into a more profitable venture.”

It is tied up with what I call “dead money,” because this has been held up by us. We voted \$100 million which cannot be used—unless I am wrong—for any other purpose except to remain in a revolving fund.

Mr. HENDERSON: Any revenue which can be turned up and given to the Minister of Finance cuts down yours and my taxes, does it not?

The VICE-CHAIRMAN: I would like to clear up one point. They used \$30 million of their \$100 million?

Mr. HENDERSON: That is correct.

The VICE-CHAIRMAN: Now, the other \$70 million cannot be touched by any other department?

Mr. HENDERSON: No; the act provides that they may have an amount not to exceed \$100 million. Here is the balance sheet which I have before me which is—

The VICE-CHAIRMAN: And this \$100 million has been held for them since what year?

Mr. HENDERSON: Nineteen fifty-two, is it not, Mr. Douglas? The defence production—

Mr. DOUGLAS: Nineteen fifty-two revised statutes. Chapter 62.

The VICE-CHAIRMAN: Revised statutes of 1952? Was the original \$100 million put aside in 1952, or prior to this?

Mr. HENDERSON: It was when the act was written, was it not, Mr. Hunter?

Mr. HUNTER: It was \$50 million when the act was written, and during the Korean crisis we found out that it was not sufficient and in about 1953 or 1954—

The VICE-CHAIRMAN: I think your point is well taken. There is \$70 million which is not being used.

Mr. McLEAN (*Charlotte*): I cannot see it that way. If it is in the revenue fund the government can use that \$70 million if they want to.

You always have to provide \$100 million, if you want it. Is that not correct?

The VICE-CHAIRMAN: This is the point I am trying to get at. Is that \$70 million being used by other departments of government or is it just set aside for—

Mr. HENDERSON: The act provides for a ceiling of \$100 million. As Dr. McLean says, and as I have explained, the operation is always in the consolidated revenue fund, and, therefore, the government has the use of the \$70 million and the Department of Defence Production has the \$30 million at the present time. If they find they want \$50 million they will ask for it.

So far it is operating quite happily on—

The VICE-CHAIRMAN: That is a little different.

Mr. MUIR (*Lisgar*): I do not think it is different. I think that the government has to raise \$70 million more in taxes in order to provide the \$100 million revolving fund. Is that correct?

Mr. DOUGLAS: I think it would be more properly looked upon as an authority of parliament to charge to a fund established in the consolidated revenue fund amounts up to \$100 million; but there is no money, as such, tied up or earmarked at all. It is simply an authority of parliament.

Mr. BIGG: Well, I am not satisfied with that answer. It seems to me that when you budget you say you can put so much money into defence, for instance—a billion and a half—and so much into housing and so much into old age pensions. In parliament, when we are trying to get an appropriation for say, old age pensions, the Minister of Finance will say: "I am sorry, there is no money because we put \$100 million in there and we have to keep that reserve." If the department has already spent \$100 million it would come out of their budget.

● (11.00 a.m.)

Mr. HENDERSON: The \$100 million limit established by the act would not have appeared in your estimates as such. It would then be asked for by authority. Is that not right?

Mr. DOUGLAS: It is a statutory authority. It is not provided by an appropriation.

Mr. HUNTER: At the beginning of each year, when the budget is being made up, we are asked for our best approximation of what would be the maximum net amount we would need during that year having regard to the fact—as the Auditor General says—that revenue is paid in and your expenditures paid out. We are certainly governed by this, and through National Defence have a very good forecast of what the requirements will be and what we might have to tie up. Therefore, I feel that we only tie up—as the Auditor General has said—\$30 million this year, and the other \$70 million is merely an authorization.

I would also like to say that the \$1.8 million profit that we have will cut down that \$30 million to \$28,200,000, because we are using our own money.

My point is that we will be happy to make an accounting, but we would like to make it at the end of our transactions on strategic materials, which have not come yet, but will be coming within the next two years. As it happens, on the airplane deal things have gone very well with the companies that bought them, and some have paid up in advance, and at its conclusion we would then certainly be in a position to make a full accounting, and then be happy to pay over the net profit on the airplane portion of the fund.

The VICE-CHAIRMAN: In other words, your department is not tying up \$100 million year after year in the national budget.

Mr. HUNTER: No, sir.

The VICE-CHAIRMAN: At the present time you are tying up \$30 million?

Mr. HUNTER: That is right.

The VICE-CHAIRMAN: Then this point of yours, Mr. Bigg, does not hold, if this is correct. We are not robbing another department of \$70 million.

Mr. BIGG: I am not talking about robbing anyone. I am talking about dividing up our budget. It means a policy change if the budget has guaranteed so much money to defence. Can we just go ahead and budget with an unlimited ceiling and give every department the right to spend, say, a billion?

Mr. HUNTER: Sir, we cannot do anything with the defence production revolving fund if it is not for a requirement of the Department of National Defence on a basis that they will repay it within the year I believe, or for another associated country, under the same conditions.

Mr. BIGG: Let me put it another way: What possible advantage would there be in having this \$1,800,000 to your credit if you do not need it and you are not going to use it? This is not good bookkeeping, in my opinion.

Mr. HUNTER: Are you talking about the total amount, sir, or that it should be lowered to \$50 million?

Mr. BIGG: No; I am not worried about that particularly. Apparently there is no money actually involved at all; it is only honouring your note.

Mr. HUNTER: This was the maximum—

Mr. BIGG: I would like to know what advantage it is to your department to have this credit there instead of balancing the books? I think that the Financial Administration Act wants balanced books, and wants to know where the money is and what is going on. This, apparently, is not giving us a clear picture.

Mr. HUNTER: On the use of revolving funds, my understanding is that it really is as a convenience for your day-to-day operations. The Auditor General knows more about this, than I do, but we use it for convenience, to buy things at the moment, which are going to be charged elsewhere, such as a shipyard contract for buying lead items for seven yards and paying for them out of our fund, and billing them in turn to these yards which, in turn, bill national defence. In other words, it is just a convenience for working capital to meet the needs of national defence on a more business-like basis.

However, we could not go out and spend \$100 million on just anything, as it has to be related to a requirement of national defence who, in turn, have their funds restricted over the year and our money just pays out at the moment something to be recovered, mostly from national defence.

The VICE-CHAIRMAN: To come back to your motion, Mr. Bigg, I think we are all of the same opinion that if the Financial Administration Act forbids this then we will have to vote for your motion. The opinion received by Mr. Hunter from the justice department is just the opposite. Who is going to iron this out?

Mr. BIGG: I do not know.

Mr. BALDWIN: I was going to suggest, Mr. Chairman, that perhaps Mr. Henderson could get an opinion from his own advisers before the Committee comes to any decision; and perhaps Mr. Hunter might be prepared to file the opinion he has received from the Minister of Justice. We could get Mr. Henderson's opinion on this, and then the Committee has to come to a determination.

Mr. HENDERSON: Mr. Baldwin, I am in the process of securing that opinion from my legal advisers, but I sought to put this problem to you this morning on the straight basis of fair disclosure to Parliament.

Mr. BALDWIN: I had that in mind, Mr. Henderson. What I was thinking was that if this Committee decided to accept your proposal, and if the legal opinion is that the Financial Administration Act does permit this, then I suppose our recommendation should be that the Financial Administration Act, or the Defence Production Act, should be changed for the purpose of providing the machinery to give effect to it. If, on the other hand, we, after having your legal opinion and the legal opinion of the Minister of Justice, decide that we do not like the Minister of Justice's legal opinion, then it would simply be that the law be observed, as we see it, from the viewpoint of this opinion.

I am thinking of this in terms of the machinery of the motion which the Committee may decide to pass.

The VICE-CHAIRMAN: Mr. Baldwin, without getting into all this—

Mr. McLEAN (*Charlotte*): Is this just not a matter of bookkeeping and having your balance sheet set up right every year and transferring this, and so forth?

Mr. HENDERSON: The real essence of this is the point made at the top of page 33 which reads:

If income of the type above is to be left at the discretion of the department in a revolving fund to cover possible future losses in that fund, parliamentary control of public money is weakened because losses which should come under parliamentary scrutiny would not be adequately disclosed.

It is on that point that I put the question to you today. I think we have had a very good discussion of this, and I much appreciate the comments which you have made. Most certainly we will discuss this and obtain the necessary legal opinion, but it does not alter the fact that—

The VICE-CHAIRMAN: If you would wait for a moment, we have a motion on the floor.

Mr. BIGG: I wish an interpretation could be given to us to clarify the loss, because I am certainly not sure now, having heard that the Justice Department do not agree, that the law is clear on what should be done with this money. I think it is just bad bookkeeping.

The VICE-CHAIRMAN: Would you like to withdraw your motion until we get the opinion of Mr. Henderson's advisers?

Mr. BIGG: I am quite willing to do that; and I would like to hear what the bookkeepers' opinion is; as well as the lawyers'.

The VICE-CHAIRMAN: Will we just let it stand until the report is received? Is that agreeable to everyone?

Some hon. MEMBERS: Agreed.

Mr. MUIR (*Lisgar*): Mr. Chairman, it would seem to me that a very simple amendment to the Defence Production Act would cure this. The trouble is that by the time it got through, in another couple of years, you think this surplus you talk about would be all wound up. Is that right?

Mr. HUNTER: Yes; I would hope it would.

Mr. MUIR (*Lisgar*): Are you not always involved with surpluses?

Mr. HUNTER: No; I would say these two were unusual deals and the only ones of this nature that have happened in the last 15 years.

Mr. MUIR (*Lisgar*): What makes them different from any of the other surpluses you get rid of?

Mr. HUNTER: What makes the difference is that we had an operation on buying a lot of strategic materials in 1953-54, which, over the next year or so, will be all sorted out. Then we could come to Parliament either with a profit and hand it over, or with a loss and be prepared to explain it on the floor of the House in our budget. But would hope that we could wait and just explain the net loss, if any, rather than turn over the profits each year as they are made, and then have a large loss.

Mr. HENDERSON: That is my whole point right there; that is the essence of it.

Mr. BIGG: I do not think we should be breaking laws for someone's convenience. I would like to have the law clarified on this point.

Mr. MUIR (*Lisgar*): If it is a matter of Parliament's feelings on whether you are going to have a surplus or a loss, I think Parliament probably in your business, expects a loss. It is not unusual, because you are dealing with some thing which has probably lost its value.

Mr. HUNTER: We are going to have a profit, and we are rather proud of this.

Mr. MUIR (*Lisgar*): I think perhaps Parliament should know whether—

● (11.10 a.m.)

The VICE-CHAIRMAN: Perhaps we could leave this now until we get the information we wish. Thank you, Mr. Hunter. We may have to have you back again to finish this point.

Paragraph 73 on page 45 of your 1965 Auditor General's Report is next.

73. *National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 requested the Auditor General to inform the House of Commons of any case where changes in the Armed Forces administrative regulations appear to be inadequate to bring about the desired results or where abuse and waste of public funds develop (see Appendix 1, item 15). The following matters continue to be unsatisfactory:

1. REMOVAL EXPENSES—MOBILE HOMES.—We stated in last year's Report (paragraph 56 (2)) that the Department was preparing an amendment to the regulations to include specific directions with respect to the movement of mobile homes and their contents. We understand that these regulations have been prepared but have not yet been forwarded to the Treasury Board for approval.
2. UNECONOMICAL MODE OF TRANSPORTATION.—The travel regulations covering the use of privately-owned motor cars by servicemen for temporary duty travel and for transporting themselves and their dependents to new places of duty, etc., were amended effective March 1, 1963 by substituting all-inclusive mileage rates for the previous allowances which were the equivalent of hypothetical expenses calculated on the cost of the journeys by public transpor-

tation facilities. The object of this change was to simplify the method of calculating reimbursement, without increasing the expenditures. In the course of our audit of travelling and moving expense claims involving long distances, we found that the allowances paid under the amended regulations were generally in excess of the allowances the servicemen would have received prior to the amendments.

As was pointed out in last year's Report (paragraph 56 (4)), members on duty may travel at the discretion of the commanding officers use their motor cars for their own convenience and are entitled to claim mileage allowances to cover transportation, meals and accommodation. An example was given where a saving of \$400 would have resulted had five men travelled as a group by rail instead of each using his own motor car. In 1964-65, nine naval officers, on the authority of their commanding officers, travelled on duty separately by car from Halifax to Victoria and return to attend a course of instruction in Victoria for the period January to May 1964. Expenses claimed by the officers for the trip, comprising the mileage allowance and charges for excess baggage and ferry tolls, totalled \$5,282. An estimated \$4,600 could have been saved had they travelled by service aircraft.

We have been informed that a comprehensive evaluation of the present allowances is being undertaken by the Department.

3. **TRANSPORTATION ON LEAVE ALLOWANCE.**—Departmental regulations provide for transportation allowance of two and one-half cents for each mile travelled in excess of 500 miles to assist servicemen financially who proceed to their homes on leave. The length of the journey is calculated by using railway competitive mileage charts for the portion of the trip served by railways, and actual mileage by the most direct route for the remaining portion. A test examination disclosed that since the introduction of special economy rates by the railways, the amounts paid for long journeys are in excess of actual rail fares. The matter of the relationship between the transportation allowance and the now lower rail fares was accordingly drawn to the attention of the Department.

The VICE-CHAIRMAN: This deals with the National Defence administrative regulations and practices. The opening sentence says: "The Public Accounts Committee in its Sixth Report 1964 requested the Auditor General to inform the House of Commons of any case where changes in the Armed Forces administrative regulations appear to be inadequate to bring about the desired results or where abuse and waste of public funds develop (see Appendix I, item 15). The following matters continue to be unsatisfactory." Mr. Henderson will give us the background on these items.

Mr. HENDERSON: The first two items in this paragraph already have been dealt with at the time you considered my 1964 report, when Mr. Armstrong and his associates were before the Committee on June 9 and 14. That just leaves No. 3, which is on the next page, transportation on leave allowance. Members may wish to question Mr. Armstrong about this.

Mr. MUIR (*Lisgar*): Do you suggest that personnel on leave are travelling free?

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): That is possible, yes. The regulation, as it exists today, provides for an allowance of 2½ cents per mile for each mile in excess of 500 miles, and that rate was authorized in 1953. It was based, at the time, on the rate paid by the department for coach class fare based on the current form warrant rates at that time. As you know, in recent years the carriers have introduced a variety of economy rates and there are occasions, as a result of that, when the 2½ cents per mile in fact tends to be excessive. The department has studied this; we were about to revise the regulations but we deferred making the final decision because there are now indications that rail fares will be increased. We found it advisable to see what the new rates were before we finally changed the present regulations.

Mr. MUIR (*Lisgar*): This is an allowance regardless of whether you travel by rail or not. I mean this is an allowance you are giving them to travel by car or by rail?

Mr. ARMSTRONG: Yes. It is in effect an assistance to get a man home on leave.

The VICE-CHAIRMAN: What is it before the first 500 miles?

Mr. ARMSTRONG: Well, there is no provision. We do not provide assistance except for a long journey, so 2½ cents per mile applies in respect of the mileage in excess of 500 miles.

Mr. FORBES: What class of transportation do you allow your personnel?

Mr. ARMSTRONG: Well, they are allowed to go any way they like. This is just an allowance to assist them to get home on leave. We are not by this method insisting that they go by any particular mode of transportation. They could fly or they could go coach class.

The VICE-CHAIRMAN: They will not do much flying at 2½ cents per mile.

Mr. ARMSTRONG: Well, it will not pay their cost; it is only there to assist them.

Mr. BIGG: I do not see anything very much wrong with this. In a country like Canada, where you have boys who are domiciled in Nova Scotia and serving in British Columbia, I think we have to face modern facts and subsidize their private car travel. It actually amounts to this. It cannot fit every case because some people have to fly. Those are the people who fair badly in this regard. Some of them perhaps are taking their family with them and it is a slight advantage to have a cash grant. I think the idea works out reasonably well.

The VICE-CHAIRMAN: Maybe Mr. Douglas could give some information on this.

Mr. DOUGLAS: Mr. Chairman, I do not think we were suggesting that there is anything wrong with this; we were merely suggesting that the allowances being paid be brought into line with the current railway rates. This is what the department has agreed to do and is in the process of doing at the present time. It is being rectified.

Mr. BIGG: I do not know if this is the place to mention it but I thought we might have a subparagraph (4) in there. On retirement leave, particularly, they

have rather generous allowances from the government to move their household furniture and so forth. I made a recommendation in another meeting that perhaps we should give the serviceman something along the same line as this; that is, the full amount in cash which the government is going to pay to move him so that he could dispose of his furniture by auction. I have moved quite often in my service and we took big losses. Although the government paid for moving our furniture, the furniture was badly shaken up. We would have been much better off if we had sold our goods at auction and taken a cash grant in lieu. I know that the servicemen would like this and there would be no extra charge on the public purse. I would even have been willing to take, shall we say, 90 per cent of the estimated government expenditure in cash and made my own arrangements. It is easier on the family, and easier on the furniture. In other words, you would have a choice.

Mr. ARMSTRONG: We have not attempted to work out a system of that kind. The arrangements governing removal expenses have been under review in the department and they are now being studied in relation to a similar review which was made by the Treasury Board. I would expect in the next month or so that as a consequence of both of those studies there will be some change in the regulations as they are now designed. However, to the best of my knowledge, unless it comes out in the Treasury Board study, this particular system that you suggest has not been included in that study. I could perhaps have a look at it, or have our experts have a look at it. I suspect there may be some very considerable difficulty in working it out.

Mr. BIGG: It seems to be a very simple thing to me. Before you approved of this expenditure you could have tenders or something of that nature. We had to have tenders, I believe, from two different moving companies.

Mr. ARMSTRONG: That is right.

Mr. BIGG: Now, at some stage the government official, whether it is your officer commanding or some other official, passed the expenditure of \$1,000, let us say, to move me from Ottawa to Edmonton. Now, at this point it is a very simple thing to say that I could have two alternatives; I could either have \$1,000 and let them move me or else take \$900 and they wash their hands of the whole business.

Mr. ARMSTRONG: It probably could be worked out. There are some variables but I think one would have to come to some conclusion as to how they would be valued in the equation.

Mr. BIGG: We have that already. They only allow a certain amount and if there is any excess baggage—

Mr. ARMSTRONG: Well, there are variables, depending on the number of days you are looking for accommodation. But, I will undertake to have our experts take a look at this to see whether there might be some advantage in it from our point of view.

Mr. BIGG: I might say that I have had this representation made to me by numerous servicemen.

● (11.20 a.m.)

The VICE-CHAIRMAN: Shall we go on to paragraph 74 then gentlemen?

74. *Questionable charge to Vote 15 of the Department of National Defence.* As a Canadian contribution to the International Biological Program under the sponsorship of the World Health Organization and at the request of McGill University, the Department of National Defence provided the repair ship HMCS *Cape Scott* to transport a medical expedition to Easter Island. The additional costs borne by the Royal Canadian Navy appropriation (Vote 15) as a result of this operation are estimated to be \$215,000.

In our view this expenditure is in the nature of a contribution to an outside organization and therefore it is questionable whether it falls within the ambit of a defence appropriation.

Mr. HENDERSON: Paragraph 74 has to do with a request made by McGill to transport a medical expedition to Easter Island, which the navy carried out. Members may recall that this was a very interesting expedition, and our note is not intended in any sense to criticize that. The point is that we consider this expenditure is, after all, in the nature of a contribution to an outside organization and, therefore, its nature should have been disclosed to you in the vote wording. As it was not, we do not believe that it fell within the ambit of a defence appropriation. A further question might be whether there should not have been parliamentary authority for such use of a ship even though no additional cost resulted—in this case \$215,000 was the additional cost. That, Mr. Chairman, is the point at issue here, and I would hope the committee would agree with our view on this, namely that it should have been disclosed in the vote wording.

Mr. PRITIE: May I ask, Mr. Chairman—I am not referring to this case—in a case like this would the authorization be made by the naval staff or would this come up to the minister for approval.

Mr. ARMSTRONG: The undertaking to use the *Cape Scott* for this purpose was approved by the cabinet actually.

Mr. MUIR (*Lisgar*): I am wondering why this request was not made in the first place to External Affairs rather than to the Department of National Defence, and then the appropriation could have been properly entered under The External Affairs Department.

Mr. HENDERSON: As you know, it is our job to watch and see that expenditures are charged within the wording of the votes. This case is why we bring this to attention.

Mr. ARMSTRONG: Well, of course External Affairs were involved in the discussions as well as others, but on the specific point of special appropriation or special wording in the vote, the expenditures that were made by the department of course were in respect of the operation of the naval vessel, the *Cape Scott*, and we were of the opinion that in using the *Cape Scott* for this particular purpose was reasonable training for the crew and that it was quite appropriate to charge the expenses of operating the ship to the appropriations, and that is why we did it in this way.

Mr. BIGG: I have to agree with the Auditor General on this point. I think that no matter how well intentioned things may be that we should have commitments to definite votes. For instance, if I wanted to go deep sea fishing I could get

a destroyer to take me out, and then you could say, well, a destroyer must battle the elements, chart their way there and all that sort of thing; but I sit up in the prow with a deep sea fishing line and if the main reason for taking me out there was fishing and not manoeuvres then it would not be properly attributed to national defence. I am only reducing it, perhaps to absurdity, to prove our point. And even the fact that the cabinet themselves agreed that this was a very nice operation. I think that this committee, in a way, has to ride herd even on the cabinet, and we will.

Mr. MUIR (*Lisgar*): I think it was a very worthwhile project but I still think that by having this as an item in the defence budget, the Canadian people have lost the idea that they have given this assistance to someone else. If it had not come before the committee probably the country never would have known that we had done it, and I think we lost something there.

Mr. ARMSTRONG: I might point out to you that it was announced in the press that, in fact this was being done at the time. Therefore, I think the information was made available to the general public that the *Cape Scott* was providing some assistance for this expedition.

Mr. BIGG: Well, you have answered that part of my question anyway.

Mr. ARMSTRONG: I would like to make this one point clear: that the special cost—that is, the extra cost such as supplying food for the scientific expedition and so on—was not paid by us: this was charged to the expedition. We did, of course, pay the cost of running the ship, the ship's fuel, canal dues and so on—all those things normally associated with the operation of the *Cape Scott*—and that is what we charged to our appropriation.

Mr. FORBES: What year did this take place?

Mr. ARMSTRONG: I believe it was 1964.

Mr. MUIR (*Lisgar*): Do you think you could justify this as a naval manœuvre?

Mr. ARMSTRONG: Well, after all, naval ships have to train and I think this was a reasonable training exercise, in my view.

The VICE-CHAIRMAN: Shall we go on, gentlemen, to paragraph No. 76.

76. *Additional cost resulting from failure to exercise option to renew agreement for the supply of natural gas.* An agreement for the supply of natural gas to Camp Wainwright, Alberta, at 21 cents per thousand cubic feet, contained a clause giving the Minister of National Defence the option of renewal for a further period of four years upon termination of the agreement on January 2, 1964.

Instead of exercising the option, a new agreement was entered into for the supply of gas at 23 cents per thousand cubic feet, plus a service charge of \$100 per month. Based on the year's consumption, the additional cost to the Crown through failure to exercise the option is approximately \$3,900, which over the life of the agreement will amount to approximately \$15,000.

Mr. HENDERSON: In this case you will see that in an agreement for the supply of natural gas to Camp Wainwright, an option of renewal was taken for a further

period of four years whereby such supply could be obtained at 21 cents a thousand cubic feet. However, the option was never taken up—I may say this was a valid option and it was written into the agreement at 21 cents for four years—for some reason, and we think it was overlooked. But perhaps Mr. Armstrong knows the reason why it was never taken up.

The VICE-CHAIRMAN: It means \$15,000 extra expenditure for the life of the contract.

Mr. HENDERSON: That is right.

Mr. ARMSTRONG: Well, the reason it was not taken up was the fact that it was overlooked. We have in our directorate this type of agreement system which is designed to bring to attention agreements of this kind, and when they expire they should be renewed. Unfortunately, for one reason or another, the system failed to bring this one forward and it was in fact overlooked.

The VICE-CHAIRMAN: Just a supplementary here. Would it not be to the advantage of the company being very interested in getting this contract, to bring this to the government's attention?

Mr. ARMSTRONG: No. I might explain that there are two companies. This was the original company in the business at Camp Wainwright, and subsequently it was necessary to provide an additional gas supply and another contract was made. The rate that was set on the second contract was set in accordance with the rates recommended by the Public Utilities Board of Alberta. My own experts in this public utility field advised me, that notwithstanding that we did not, for the reasons I have given you, exercise the option that was available under the contract, that the contractor would have had the right to apply to the Public Utilities Board of Alberta and, in their opinion, in the light of the rate set on the second contract the same rate would have been set on this one, and we would have had to pay the same rate that we are paying, which is the same rate as the other company is receiving.

Mr. BIGG: Was this second contract with the same company that was supplying the gas originally?

Mr. ARMSTRONG: No, it was not. It was a separate company.

The VICE-CHAIRMAN: It leaves a funny feeling. The company certainly did not bring it to the attention of your department because the other fellow was going to take over and make two cents more. That is the feeling I get anyway.

Mr. BIGG: I was afraid we had just been had by the same company.

Mr. ARMSTRONG: There were two different companies involved.

Mr. BIGG: If it was the same company I would have thought that we should be allowed, because of no notice, to carry on with the thing. But if it is a different company there is a different principle involved, and that is somebody should, of course, have watched the termination of the contract and made sure that we got the best deal possible.

Mr. ARMSTRONG: Well, I agree. I agree it was unfortunate that this contract termination was not discovered in time. I am merely pointing out to the committee that in the opinion of the experts in the department in this field, in the light of the fact that the Utilities Board of Alberta set the rate on the second

contract at the rate they did, that they would have awarded a similar rate to this company who had the right to apply for a revision of the rate.

The VICE-CHAIRMAN: I think the feeling of the committee was put forth in our Sixth Report on page 4. It says that in a number of cases where claims were made by contractors for charges over and above the agreed upon price officers of the departments have not demonstrated the resistance that the committee believes the taxpayers of Canada have a right to expect from their public servants. I think this is perhaps the opinion of the committee in our Sixth Report.

Mr. BIGG: Well, perhaps the point is well taken though, that even if we renewed that contract for four years it is possible that the Energy Board of Alberta would, in spite of this contract, say that due to the increased cost and so forth that a fair price would be 23 cents.

Mr. HENDERSON: That is hypothetical. They had a contract which gave them a valid option to renew for four years at 21 cents; this was just not picked up, and that is all.

Mr. BIGG: Yes, I see that.

Mr. HENDERSON: They left the door open.

Mr. BIGG: Is it not possible that although you renewed the contract the energy board of Alberta might say that.

Mr. HENDERSON: Things like that can happen.

The VICE-CHAIRMAN: We will move on to paragraph 78.

78. *Excessive payments to municipal school board.* In June 1957 the Department of National Defence entered into an agreement with a municipal school board for the provision of schooling to dependent children residing in married quarters at an RCAF station.

The Department agreed to provide capital assistance towards the cost of construction of the school, and to pay a share of the annual operating expenses proportionate to the number of service children enrolled. Clause 4(c) of the agreement stipulated that (a) payments in respect of the operating expenses less provincial grants would be adjusted at the end of each school year and any balance owing would be paid by the Department upon presentation by the school board of a statement of the actual operating expenses, and (b) the school board would refund "any moneys that were in excess of the operating expenses less provincial grants for the preceding school year".

The files reveal that although the Department had been billed each month since September 1956, the effective date of the agreement, for its share of the gross operating expenses, at no time since that date had an adjustment been made in accordance with clause 4(c). As a result, refunds due the Department in July 1963 were estimated to be in excess of \$200,000. Having failed to induce the school board to refund the amount overpaid, the Department took steps in October 1963 to avoid current overpayments by reducing payments to 50 per cent of the operating expenses. The reduced payments approximate the Department's share of the current operating expenses less provincial grants, but make no provision for recovery of the amount already overpaid for the years 1956 to 1963. The Department is continuing to seek a satisfactory settlement.

Mr. HENDERSON: This is a case where a municipal school board, having entered into an agreement with the department to make certain refunds, failed to keep its bargain. Refunds due to the department in July 1963 were estimated, as the note says, to be in excess of \$200,000, although I do believe this estimate has been revised downwards, has it not, Mr. Armstrong? I think it is down around \$164,000, if I am not mistaken.

Mr. ARMSTRONG: That is correct.

Mr. HENDERSON: I realize the department is continuing to have some problems with this particular situation but perhaps the deputy minister would like to say a word about it.

The VICE-CHAIRMAN: Yes. Could you tell the committee in what community this is and provide some background on this particular item.

Mr. ARMSTRONG: This is in Kings County, Nova Scotia, which is the area in which RCAF base at Greenwood is located. We have an agreement with the county to provide high school accommodation for the high school children at the base. That agreement provides, in essence, that we will pay the share of the operating costs that are attributable to the attendance of the DND children at the school. The problem arose by reason of the fact that in the billings and in the accounting that the school board made they did not properly account for and deduct provincial grants in relation to the school. This resulted in an overpayment by the department, when there was a good deal of difficulty in getting proper financial statements from the Kings County school board. But, when these were finally determined we then undertook to recover by not making current payments in respect of operating the school. Unfortunately, the Kings County school board was not in a position to continue the operation of the school without some payments and we then made an arrangement where we would pay 50 per cent. That has been continued. As recently as October 25th, the officers at the base have had discussions with the Kings County municipal school board and proposals have been made, which I have not yet seen, they have not yet reached Ottawa. I understand, however, that these proposals suggest a basis of recovery over a fairly lengthy period of time. I think the recovery suggested is something like 10 per cent a year, so it will take some time to recover the full amount. But, I have not seen the details of this proposal myself.

The VICE-CHAIRMAN: Would you say, sir, that this \$200,000 which was used by the school board was, in effect, a way of keeping the school taxes in this community at a low point; in other words the people there were not paying the required amount of school taxes and, therefore, your department made up the difference.

Mr. ARMSTRONG: I do not know. Presumably it might happen but we obviously overpaid.

The VICE-CHAIRMAN: It sounds very much like it.

Mr. BIGG: Is it my understanding that by this method you hope, over a period of years, to underpay them \$200,000 until the account is even, and then you will make another adjustment perhaps to pay them the full amount? Is that it?

Mr. ARMSTRONG: Well as I say, I have not yet seen the proposal but my understanding is that recovery, presumably, would work something along that line.

Mr. BIGG: This has been going on for three years, has it not?

Mr. ARMSTRONG: Yes, it has been going on since 1957.

Mr. BIGG: I mean this 50 per cent payment rather than the normal current expenses. So, in fact, you have been doing this for three years as a kind of a short cut to justice.

Mr. ARMSTRONG: Do not misunderstand the 50 per cent payment. The 50 per cent payment really merely assures that we are not overpaying because the provincial grants amount to roughly 50 per cent of the operating costs. So it does not necessarily provide for any recovery.

Mr. FORBES: Is this educational grant so much per pupil, or do you know this?

Mr. ARMSTRONG: Yes, it really amounts to that; it is a division of the operating costs on the ratio of the DND pupils and the other pupils.

The VICE-CHAIRMAN: In other words the total cost of operating the schools are figured on a per pupil basis and the number of pupils from the air base are charged accordingly.

Mr. ARMSTRONG: In essence, that is what the agreement provides for.

The VICE-CHAIRMAN: Then 50 per cent of what you were paying before is just about your just share?

Mr. ARMSTRONG: Well, the difficulty was the operating costs were being billed to the department before the deductions were made for the municipal grants, and this created the overpayment. Now we say we will only pay 50 per cent, and that ensures roughly that the provincial grant adjustment has been taken into account, so we do not develop any further overpayments. The question of recovery of the overpayments that have been made has not yet been finally settled. As I say, there was a discussion at the end of last month which, I am told, has produced an arrangement which would result in recovery over a fairly lengthy period of time, but I have not yet seen the details of this proposal.

Mr. FORBES: Could I ask one question? Do you make your payment at the end of the school term based on the number of pupils, or is it an advance payment?

Mr. ARMSTRONG: I think the payments are on a monthly basis.

Mr. FORBES: I was speaking in terms of the school board having to borrow money and paying interest on it pending your payments.

Mr. ARMSTRONG: Well it is on a monthly basis, and this should not apply.

The VICE-CHAIRMAN: How many of the pupils would have parents that are members of the R.C.A.F.?

Mr. ARMSTRONG: Well, this is not necessarily the number of pupils whose parents are R.C.A.F. people; it is the number of pupils whose parents reside on the base.

The VICE-CHAIRMAN: Whether they are civilian or—

Mr. ARMSTRONG: No, they are R.C.A.F. But an R.C.A.F. man who rents a house in Kings County is not covered by this because his landlord pays taxes and he pays taxes. It is only the ones who are in the married quarters on the base. I do not have the number offhand.

The VICE-CHAIRMAN: Do they amount to about half of the school enrolment?

Mr. ARMSTRONG: I could not tell you offhand. I just do not seem to have that figure.

Mr. MUIR (*Lisgar*): Mr. Chairman, I would like to ask the witness if he can remember what the contribution to the capital costs were, what proportion of the school building costs national defence contributed?

Mr. ARMSTRONG: The original agreement provided—I do not have the final figure—financial assistance not to exceed \$200,000 towards the construction cost of the high school. That represented approximately one-third of the estimated capital cost which was based on the ratio of D.N.D. people to those of the civilian community.

The VICE-CHAIRMAN: Do you have the balance of the figures there, Mr. Douglas?

Mr. DOUGLAS: I could give the figures for 1960, 1961 and 1962, if that would be of any assistance.

The VICE-CHAIRMAN: It would give us an idea.

Mr. DOUGLAS: The total enrolment in 1960 was 728 of which 262 were forces children. In 1961 the figures were 754 total enrolment of which 232 were forces children, and in 1962, 817 total enrolment and 227 forces children.

The VICE-CHAIRMAN: Are there any other questions on this particular item?

Mr. MUIR (*Lisgar*): When was the school built?

Mr. ARMSTRONG: The agreement was entered into on the 5th of June, 1957. The school would be built in the succeeding year.

Mr. MUIR (*Lisgar*): Just in case you are unable to collect the money that they have held over as expenditure would there be any merit in making a contribution to the capital cost of the building—writing it off, say?

Mr. ARMSTRONG: Well we would like to believe that we would eventually collect it. We are not seeking any means of writing it off at all.

The VICE-CHAIRMAN: Shall we go on to number 79, gentlemen?

Mr. BIGG: I would like to know if this is the only base where we have had this particular problem. I understand you have agreements pretty well across Canada in the different provinces.

Mr. ARMSTRONG: I do not recall any other situation similar to this one.

Mr. BIGG: If it has not occurred in other places perhaps they have a better safeguard system to make sure the department is protected. I am in great sympathy with these communities that have temporary populations unloaded on them. Are there not other bases which have some kind of a safeguard, perhaps a fund where the money can actually be withdrawn or held over. Could

we not have some agreement here that we give them the money but that a certain amount of it be set aside so the department can get back its fair share due to this unloading. I know it is not an absolute; you cannot be sure the students are going to stay there and they need the money to get things going, to pay their teachers and so on. I am thinking in terms of a holdback, like on other contracts, where one-third of the money you give them is kept in a reserve fund so that at the end of the year you can get it back. It is pretty difficult to get money out of a municipality; there is nobody to sue. There is, apparently, no financial responsibility in this matter. You could get money back from a company as a debt to the Crown. It has only occurred in this one place. For instance, what do they do in Alberta? Is it exactly the same financial arrangement?

Mr. ARMSTRONG: We have a number of places where we have arrangements of this kind, yes.

Mr. BIGG: But apparently you get your books balanced properly at the end of the year.

Mr. ARMSTRONG: That is right, and I do not know of any other situation like this one.

Mr. BIGG: Perhaps the Auditor General could suggest a method for a reasonable recovery process.

Mr. ARMSTRONG: Well, we will endeavour to work out an agreement with the school board to recover. I think you would appreciate that there are some difficulties associated with school boards raising the money—certainly a large sum of this kind, and to pay it back at one time. But I think we probably will reach an agreement that will enable them to return it over a period of time that will not work too much hardship on them.

The VICE-CHAIRMAN: We will now go on to paragraph 79.

79. *Cancellation of Canada-United States radar site construction program.* In 1958 the decision was taken to construct "gap filler" radar sites to improve the Continental Air Defence System with the installations to become operational by July 1963. The Canadian and United States authorities agreed that the Royal Canadian Air Force would be responsible for the cost of providing the sites, buildings and services, and the United States Air Force would be responsible for the cost of supplying and installing the radar equipment. In order to reduce the period of vulnerability, it was decided that the construction of sites and the development of the new radar equipment would be carried out concurrently.

The United States authorities considered that, with minor modifications, the required radar units could be developed from radar sets then in inventory. However, by early 1963 the contractor to whom the work had been assigned had not been able to produce satisfactory equipment and as a result the sites did not become operational. As it did not then appear likely that equipment meeting the required specifications could be developed and installed within the period during which the facilities were deemed essential to the air defence plan, the program was cancelled by mutual agreement.

The cost to Canada of proceeding with its commitments under this program is expected to aggregate \$3.5 million. This is largely accounted

for by consultants' fees, property expenses and construction contracts which have amounted to \$3.1 million. Additional costs will include further property expenses, amounts pertaining to termination of leased communication facilities (for one-third of which Canada was liable), and loss incurred on the final disposal of the generators purchased specifically for the gap filler program. The costs will in turn be reduced by whatever amounts can be realized by Crown Assets Disposal Corporation from the sale of sites, buildings, equipment and materials and by the value of materials taken into inventory by the Royal Canadian Air Force.

Mr. HENDERSON: Here you have the R.C.A.F. undertaking a responsibility for the cost of providing the sites, buildings and services for the continental air defence system which was to have been operational by July 1963. However, early in that year it developed that the United States supplier of the radar equipment had not been able to produce it satisfactorily and as there did not appear to be any likelihood of this being done within the period scheduled the program was cancelled by mutual agreement. The cost to Canada is expected to aggregate to \$3½ million. This is, of course, a non-productive item and it is placed in the report for that reason. Mr. Armstrong may have some comments on that.

Mr. ARMSTRONG: The situation is essentially as described by the Auditor General. Under the agreement with the United States for the construction of the "gap filler" sites the United States undertook to provide the equipment if we undertook to build the buildings. As it turned out, the production of the equipment, due to some technical problems in relation to it, did not proceed as originally planned. We then made certain deferments in respect of construction and eventually terminated the work on the sites, with the exception of closing in some buildings and so on to protect them to the extent that the work had been done. Then in 1963, due to some changing attitudes in respect of the importance of these particular facilities in the air defence system, it was decided jointly with the United States to cancel the program.

The VICE-CHAIRMAN: Would this be the Pine Tree Line?

Mr. ARMSTRONG: Yes. It was decided to cancel the program altogether and an agreement was made with the United States in the early part of 1964 to cancel it. There were costs incurred as a result of that and the program was eventually cancelled.

Mr. BIGG: Can you give us an idea of how many sites were involved? Was it just one or two sites or was it the whole chain?

Mr. ARMSTRONG: There were 25 contracts, I think, as I recall; 25 sites, as I recall.

Mr. BIGG: There were 25 different sites?

Mr. ARMSTRONG: Yes.

Mr. MUIR (*Lisgar*): In an agreement of this kind, where the Americans were responsible for the equipment and eventually did not supply it, you would expect, I would imagine, that the loss to Canada would be somewhat in excess of the loss to the United States.

Mr. ARMSTRONG: I would think it would be the reverse in this particular case although I cannot tell you whether or not it was. But, the cost of the

equipment for these sites, as I recollect, was in the ratio of about two-thirds of the total cost.

Mr. BIGG: They did not produce them, did they?

Mr. ARMSTRONG: Well they did attempt to produce them. Now I do not know what their total losses were, but my guess would be they would be more than ours.

Mr. MUIR (*Lisgar*): They tried to produce them and it did not work out, but they would pay for them, in any case, I would imagine.

The VICE-CHAIRMAN: Shall we go on to number 80, gentlemen.

80. *Additional cost of constructing runway and access taxiways at R.C.A.F. Station, Chatham, N.B.* In December 1961 the Treasury Board authorized entry into a contract for the construction of a runway and access taxiways at the R.C.A.F. Station, Chatham, at an estimated cost, as amended, of \$1,060,00, based on estimated quantities and firm unit prices. Adjustments to the contract to cover extra work and additional quantities at a cost of \$642,000 and increased haulage costs of \$160,000, increased the contract price to \$1,862,000.

In April 1963 the contractor submitted a claim for additional costs of \$506,000 resulting from a truckers' strike, late acquisition of lands, gravel compaction tests, extra excavation and fill, change in specifications for gravel and asphalt and completing asphalt work late in the season. With the approval of the Treasury Board the claim was settled during the year for \$476,000 summarized as follows:

Equipment rental, labour and overhead, standby charges	\$ 234,000
Additional costs resulting from renegotiated unit prices	93,000
Payment for abandoned work on blending of fines	60,000
Additional work	37,000
Use of additional plant	15,000
Cost of maintaining campsite during strike	14,000
Expropriation delays	12,000
Financing costs	11,000
	<hr/>
	\$ 476,000

In addition, the Treasury Board authorized payment of \$11,000 for reprocessing by the supplier of asphalt primer which failed to produce satisfactory results because of the cold, wet conditions prevailing in the period during which the work had to be performed.

The final cost of the contract was therefore \$2,349,000.

Mr. HENDERSON: This tells how a contract to construct a runway and access taxiways at the R.C.A.F. Station, Chatham, as approved by Treasury Board in 1961 for \$1,060,000 has ultimately cost twice as much, \$2,349,000.

Mr. MUIR (*Lisgar*): Was this contract let on a cost-plus basis?

Mr. ARMSTRONG: I have with me, Mr. Bland, of Defence Construction Limited; perhaps he would like to make some comments on this?

Mr. A. G. BLAND (*Defence Construction (1951) Limited*): Mr. Chairman, it was a firm price contract, as the Auditor General states. It might be helpful if I gave a very quick rundown of the events that led to this rather excessive overrun. In the fall of 1961 we were asked to arrange a contract for this construction and it was given the very highest priority. It was wanted for the fall of 1962. There was apparently a gap in the NORAD capacity in that area and they were flying some CF-101s, I think, out of Bagotville in lieu of Chatham because of the lack of availability of a proper runway for these aircraft. I give you this background simply to impress upon you the fact that during this period urgency of construction was extremely important. I find that it is often difficult to re-establish the environment of the time but I can assure you there were many decisions made on this job in order to get it done in the following fall. Now, a great deal of the increase in cost, I think, could be correctly laid to the fact that there was inadequate pre-engineering done prior to the award of the construction contract. This was again due to urgency, because of the necessity of getting an early start on this in the fall of 1961; the job progressed really from one crisis to another and crises overlapped in many instances.

Basically, the history of the job was an award in December of 1961. In order that the job could be done the following fall there was a requirement in the contract that the successful contractor stockpile material, granular material for this runway over the winter months. And, in fact, there was put into the contract a bonus if he, in fact, stockpiled in excess of 100,000 tons prior to March 31, 1962. So the first operation, in fact, was a stockpiling operation of granular material for the runway. Now this was concurrent with a start on the clearing and grubbing and certain minor works that could be done during the winter of 1961-62. One of the things that caused the contractor delays in these early stages was a so-called strike; actually, what happened was that he was trying to move these materials using his own trucks and drivers and he met with great resistance. In fact, this resistance increased to the point where he was denied the use of the roads by a wildcat strike of local truckers who were anxious to become involved in the transport of the material. He obtained an injunction against the truckers but, in fact, the police were unable to control the situation and he was denied the use of the roads. In fact, he was out of business for, I think it was basically, the month of January, on his haul. During this period he was trying to clear ground and, unfortunately, the expropriation of lands necessary for this particular runway did not flow easily, and there were a number of properties that were unobtained and he had to leapfrog; he had to stop in certain instances, and the continuity of this operation was badly affected by this.

Once excavation did commence on the runway proper, the Crown was faced with the discovery that there were very large pockets of unstable clay and a decision was reached to remove these and replace them with select granular material. This was considered essential to the success of the runway project. One of the main problems that was faced on the project was the problem of adequate granular material. The Chatham area is not blessed with a good supply of superior granular materials that are needed for this type of construction. There was a pit some 23 miles from the site that was, as a result of tests, considered to have adequate materials in it. It turned out that as the pit was moved during this stockpiling operation in the winter of 1961-62 that the quality of the material actually slipped and was not up to the standards of the specifications. A decision had to be reached at that time, were we going to continue to move this material

or were we not going to continue? Were we going to search the Maritimes for some material to try to do the job? A decision was taken, in view of the urgency, to continue shipping this and to seek ways of utilizing it satisfactorily in the end product.

Mr. BIGG: It was not the contractor's fault?

Mr. BLAND: This is really the key to the problem. We considered that we had, in fact, led the contractor to this particular pit. We considered, as I indicated, that it could be utilized without special costs to beneficiate the material. It turned out that it could not. What happened, in fact, on this job was that while it was originally a firm price contract, it became a joint venture project of the contractor, our engineers—that is, the contracting agency's engineers and the department's engineers—to take the material that was available at Chatham and produce a runway that would meet the Air Force requirements for landing Voodoos at Chatham. This required moving design staff to the site, doing tests as the job progressed. These tests hold up the contractor to some considerable extent and it was necessary, in fact, to experiment with each phase of the job in its construction. The job involves a variety of granular materials classed, for convenience, as B—which is not too difficult a specification—and this was met from the pit, except that the actual laying of it had to be done in a very particular way and in a way which involved the contractor an excessive cost. He had to lay a four inch lift and he had to compact it with rubber-tired equipment. This was the only way this could be done and used. When one moved to the more select upper courses of the granular base, called Class A, it was necessary for him to crush the material from the Breadbank pit which had been stockpiled and to then take out certain grades of it and make a blend that would compact and supply the degree of compaction necessary. When it became time to produce asphalt it was necessary to beneficiate the stockpiling again to produce aggregates that would be suitable for the asphalt. Throughout all of this joint venture the contractor co-operated to the fullest extent. He in no case lost sight of the requirement of completion by that fall and, in fact, he has to be given a large part of the credit for the job being completed that fall.

Mr. BIGG: He did not do the contracting at all, then; he merely used his equipment for your technical engineers to pull him out of a hole, as I see it. The contractor could not handle it and you people saved him by expert advice and joint ventures, as you say, and it seems to me in the end he got paid as if he had done it all himself.

Mr. BLAND: Well I do not agree that we pulled him out of a hole. I agree that we jointly, pulled the job out of a hole, but I do not agree that we pulled him out of a hole.

Someone asked was this a cost-plus contract. In my view, in effect, in the final analysis it ended up as a cost-minus project because that is basically the way the settlement was made.

Mr. BIGG: He lost money on the deal, you think?

Mr. BLAND: He lost money on the deal, yes. We audited his complete costs on this job to the point where we are satisfied that his cost on the job, attributable to this job, was in the order of \$100,000 more than he was paid for the job.

The VICE-CHAIRMAN: Who was the contractor on this particular job.

Mr. BLAND: The contractor's name was Coronet Paving Limited of Andover, New Brunswick.

Mr. BIGG: If this is true it seems we owe this man \$100,000. This is an unusual case.

Mr. BLAND: Well, we considered that he was responsible. I had not indicated in my comments that his initial tender was a very low tender and there was, in fact, careful consideration given as to whether it should be accepted. However, it was accepted, and it was something in the order of \$300,000 less than the second tender. We believe that his price was, in many respects, a theoretical price. We went over his tender with him carefully. We tried, in fact, to discourage him from taking the job. We believe that he contributed to the strike, in an indirect way by having allowed in his tender insufficient to meet the demands of the community for moving material.

Mr. BIGG: And using local men?

Mr. BLAND: This is correct. Theoretically, he had a fair argument. He said he could move this and, in fact, proved eventually that he could move it for the price he carried in his tender but his considerations in bidding, in our view, did not face the practical facts of life.

The VICE-CHAIRMAN: How many other contractors had bid on this particular job?

Mr. BLAND: I think there were about ten bids on the job.

The VICE-CHAIRMAN: And was he that much lower than all the others? Was there a great gap between himself and the second one, say, and the third one?

Mr. BLAND: Between he and the second valid bid there was something like \$330,000 or \$340,000 in an estimated, \$1 million contract, which was very considerable.

The VICE-CHAIRMAN: Were the others all more or less grouped around a—certain figure?

Mr. BLAND: No. I think the bids ran up to \$1,800,000 odd.

Mr. BIGG: We have had this problem before, and I do not know what this committee can do about it. It seems to me that we have run into this situation before, certainly in the last two reports, where we have taken the low contract, and then it has cost us a good deal more money than if we had taken an efficient operator. Here the highest bid, as I understand from your figures, was about \$1,800,000. Well, we paid \$2,349,000, and had we had an efficient contractor that knew his job, had his work under control, the union working with him and everything, we would have saved the taxpayer \$500,000.

Mr. BLAND: We are not supposed to take the highest tender.

Mr. BIGG: That is the very point I am discussing. Should there not be some leeway in the estimated costs of the experts of our departments, the engineers. We know that if a man bids under the bare cost this sort of thing is going to occur. This has happened before.

I am suggesting to the committee that we should think of giving some protection to the public, and when our experts agree that this is not a reasonable

contract we should look at it very, very hard before we give it to a man. If he is bad bookkeeper he may be a bad operator.

Mr. FORBES: Yes, but you have to remember there was a change in specifications for the runway that would have entered into the deal no matter who took the contract.

Mr. BLAND: That is quite possible. I would like to make that point clear. There was a considerable amount of additional work that would have been a fair "add" to the high bidder, if I could put it that way.

Mr. BIGG: I think it is very fair that you have admitted your engineers made mistakes in estimating the quality and content of these gravel pits, which are in short supply, and that he acted on your advice. I would say that was a legitimate charge on the public purse, although I would ask your engineers to be a little more careful with their tests of gravel.

Mr. BLAND: Well, one of the things we do is to try to apply the lessons we have learned to future jobs, and I think we have been reasonably successful in this since the Chatham event. Chatham was one of those situations where everything seems to work against you. We have all had that experience. We are not proud of those experiences. I do think that the Chatham end result, while it undoubtedly includes some non-productive payment, was a remarkable achievement. I do not think we would try to do Chatham again in a year, knowing that it was over a \$2 million job. We have since scheduled this type of work over two construction seasons where it was clear we could not do it in one. We have also done a great deal more pre-engineering on our current program than we did perhaps in these earlier years. All of these things, I think, will produce results of the kind the committee will look for.

Mr. BIGG: I have one other suggestion I should like to make at this point. I think we should think of the possibility, in defence particularly, of avoiding possible blackmail by having some of these contracts sublet directly from our own army engineers to avoid this type of hold up. It would be very dangerous if one union could hold us up on gravel in such an important construction project as a runway. If our engineers know what is required—apparently your engineers were better than the civilian engineers because you helped bring this runway into being which is most important for defence purposes—we could minimize these hold ups sometimes by subletting ourselves. We not only would be saving money but your engineers would know what a truckload of gravel will do as well as anybody else would.

Mr. BLAND: This is done, Mr. Bigg, to the extent that the department has the capacity. I am not an expert on this, but there is a group within the Department of National Defence in the construction engineering organization that does do projects at particularly remote sites where the possibility of getting competition is not great or does not exist. But, they have a very limited capacity, and I might say also that any mass movement toward doing work with our own forces or with our own management would not be met with good response from the construction industry. They would undoubtedly consider it an invasion of their field.

Mr. BIGG: Yes, that is true, but in matters of defence I think we should not be too gentle on the feelings of the industry when national security is involved.

You say yourself it was an emergency. I would hate to think a runway of an operational airfield was held up because some union did not want to move gravel at 23 cents a cubic foot instead of 24 cents.

The VICE-CHAIRMAN: I have a supplementary question. There is one item here of financing costs at \$11,000. Does the Treasury Board usually approve paying somebody else's financing costs?

Mr. BLAND: No, this is a very exceptional item. The Treasury Board did approve this and they approved it on the basis of the facts that we presented which were simply this. During our review of this man's tender prior to award of the contract, we considered that the bonding company, which he spoke about supplying the required bond, should know that the second bid which had been submitted to us was, in fact, a qualified bid. It was for something in the \$1,150,000 range, and we felt that their judgment as to whether this was a competitive and safe bid might be affected by the assumption that the second man was not that much greater than the low man when, in fact, the second man was qualified. We contacted the bonding company and told them this and the contractor ultimately, Coronet Paving, was unable to get a bond. They, in fact, obtained an affidavit from the bonding company stating that our phone call had been the cause of their refusing to provide a bond. We, therefore, felt that it was equitable to pay the contractor's difference in cost in putting up the alternative security of cash versus the bond. This is what the \$11,000 represents. It represents his cost in putting up cash to meet the contract requirements for security as against his tender plan of putting up a bond.

The VICE-CHAIRMAN: Why did you make this phone call? I mean, why did you go out of your way to incur an \$11,000 cost?

Mr. BLAND: Well of course we did not have the \$11,000 cost in mind at that time.

The VICE-CHAIRMAN: I know but was it not a complete reversal of your usual way of doing things?

Mr. BLAND: It was an exceptional situation but we were very, very concerned at the time we made the call about the adequacy of the man's bid, as I mentioned previously. I think it would be fair to say that at the time we made the call we were thinking negatively about giving him the job. Ultimately, after several lengthy discussions with him about the validity of his bid, we recommended that he get the job.

The VICE-CHAIRMAN: After all this and looking backward, no matter who the contractor was that got the job, all their prices would have been increased by quite a considerable amount due to all the trouble that was incurred.

Mr. BLAND: That is our belief. We believe this was a most efficient contractor, in the final analysis. On the job he worked very well and showed a remarkable ability to organize the job.

The VICE-CHAIRMAN: Under the conditions of changing plans and everything else?

Mr. BLAND: That is right.

The VICE-CHAIRMAN: Can we go on to item 81? It is getting late, gentlemen, but perhaps we can finish.

Mr. HENDERSON: If we move a little faster perhaps we could finish.

The VICE-CHAIRMAN: Maybe we could finish 81 and 82 before we adjourn in about ten minutes.

81. *Cost of terminating an agreement and lease of married quarters, R.C.A.F. Station, Grostenquin, France.* Agreement was reached with the North Atlantic Treaty Organization to reorganize No. 1 Air Division, Royal Canadian Air Force, stationed in Europe. This involved moving the squadrons of 2 Fighter Wing from Grostenquin, France to Zweibrücken and Baden Soellingen in Germany and closing R.C.A.F. Station, Grostenquin.

As there would be no requirement for married quarters after the Station was closed, the Governor in Council on March 30, 1965 approved the termination of a lease under which the Department had been renting and giving rental guarantees in respect of 443 housing units and 17 school classrooms at nearby St. Avold.

In consideration for termination of the lease and guarantee agreement, which was effective until June 30, 1967, the Department paid the lessor the sum of \$785,000.

Mr. HENDERSON: You will recall the R.C.A.F. was obliged to close its station at Grostenquin in France last year and move its operations to two bases in Germany and, as this note indicates, the termination payment had to be made and this cost the Crown \$785,000.

Mr. MUIR (*Lisgar*): Mr. Chairman, in this regard, I understand the R.C.A.F. had no alternative but to leave France because France told them to get out. Would not whether or not you were liable to pay this termination payment be a basis for negotiation of these contracts that you had entered into between Canada and France?

Mr. ARMSTRONG: This was not the case. France, of course, did not order us out.

Mr. MUIR (*Lisgar*): I know they did not order you out.

Mr. ARMSTRONG: We were on four bases in Germany and France, two in Germany and two in France. The decision was made to concentrate on three bases because we thought this would be economical, and in fact it is. The question of getting out of France has arisen later; it has nothing to do with this.

With regard to this particular agreement, when we went into France we made arrangements to have some apartments constructed for our married people there, and we had agreements with the companies that owned them. Our agreement in this case involved a lease until June 30, 1967. We left the base on March 30, 1965. So there were two and a quarter years to run on the lease. The lease provided that in the event of our vacating the premises we would be liable for the rents less any rental revenue which the owners were able to develop by leasing the houses to others. This particular area of St. Avold is not a very attractive area and not a good rental area. We settled the lease liability for \$785,000. The actual liability was in the order of \$1,380,000 over the period of time. That was based on the total liability less the estimated revenue which the owners expected to generate during the period, with a further undertaking that

if, in fact, the revenue was greater than included in that estimate, we would receive 50 per cent of the excess.

Mr. MUIR (*Lisgar*): This was done before a decision was made to take NATO forces out of France.

Mr. ARMSTRONG: That is right.

The VICE-CHAIRMAN: Did the use of nuclear warheads have anything to do with these decisions for this removal?

Mr. ARMSTRONG: No, it did not have anything to do with it. In fact, our role, as you know, has changed. We have moved the original aircraft we had in there, the F-86s, which originally were based at both these bases, and we now have the F-104 Starfighter. When the situation in Europe was examined we concluded that we could operate satisfactorily from all three bases rather than four. In consequence of that decision we closed the base at Grostenquin, and this gave rise to having to terminate the lease on the houses.

The VICE-CHAIRMAN: But it had nothing to do with France's reluctance to see our aircraft equipped with nuclear warheads?

Mr. ARMSTRONG: As you know, we never had any aircraft in France equipped with nuclear warheads. France has never accepted nuclear warheads.

The VICE-CHAIRMAN: But is this part of the background to this particular decision?

Mr. ARMSTRONG: No, I would not say it is part of the background. In fact, as a result of this—it had an involvement; perhaps I should not say it is not part of the background—we put six squadrons, three at each base, in Germany, and those were equipped with nuclear warheads and also given a conventional capability and we put two squadrons of reconnaissance aircraft at Marville in France. So there was, I think, involvement of the nuclear warheads.

The VICE-CHAIRMAN: It was connected somewhere?

Mr. ARMSTRONG: Yes.

The VICE-CHAIRMAN: Paragraph 82.

82. *Cost of terminating leased communication facilities.* In accordance with an announcement by the Minister of National Defence on March 9, 1964, four radar stations of the Pine Tree Line were closed down and contracts covering rental of on-base telecommunication and ancillary equipment were terminated. Termination charges paid under these contracts amounted to \$309,500 of which Canada's share was \$254,500.

Mr. HENDERSON: This, Mr. Chairman, is a case where termination charges had to be paid when four radar stations on the Pine Tree Line were closed down, and you will see that Canada's share of the cost of closing them down was \$254,500. This is not unrelated to the previous ones.

The VICE-CHAIRMAN: It may be related to the other one.

Mr. ARMSTRONG: I would like to say a word on this. Our agreements in respect of leased lines with the communications companies normally involves a termination charge, and the agreement is essentially based on writing off their capital outlay in a period of ten years. If we terminate before the ten years we

pay a termination charge. In this case we closed the Pine Tree stations because they were not required due to some changes.

The VICE-CHAIRMAN: Is the whole Pine Tree operation closed?

Mr. ARMSTRONG: Oh no. These are just four stations in the Pine Tree Line. This involved terminating certain communication leases and we were obliged to pay termination costs.

Mr. FORBES: Who were the leases with?

Mr. ARMSTRONG: I think they were with Bell Telephone.

Mr. MUIR (*Lisgar*): Was all the equipment you were leasing recoverable by the company?

Mr. ARMSTRONG: Well these lines, of course, belong to the company.

Mr. MUIR (*Lisgar*): Yes, but are they still there? Did the company take them down or what happened to them?

Mr. ARMSTRONG: I could not tell you whether or not they have found another purpose for them. They were there to serve these particular stations and I would assume they probably would not be useful for other purposes. What I am saying is that their standard agreement on this type of operation involves a termination payment, if you terminate your lease before ten years has expired. This is standard. This is what this involves.

Mr. MUIR (*Lisgar*): Well it is the only way you could get a company to make the investment.

The VICE-CHAIRMAN: Are there any further questions on 82, gentlemen, before we adjourn?

Thank you very much for your co-operation.

APPENDIX II
THE SECRETARY OF STATE
CANADA

OTTAWA 4, October 21, 1966.

Alfred D. Hales, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Canada.

Dear Mr. Hales:

Thank you for bringing to my attention the section of the Third Report of the Standing Committee on Public Accounts which refers once again to the question of whether or not the Canada Council Act provides sufficient authority for the action which has been and is being taken by that Council with regard to the distribution of the funds which were made available under the University Capital Grants Fund.

You will appreciate that this is a subject which I come to with no prior knowledge of the circumstances, but I am informed by the present Chairman of the Canada Council that they have over the years operated on the basis of a ruling from the Department of Justice that their actions were in every sense legal.

However, I also appreciate that the Public Accounts Committee has come back to this point repeatedly and I do intend to recommend to the Government that we introduce at an early date an amendment to the Canada Council Act designed to make it perfectly clear that the legislation supports legally the judgments which have been made by the Canada Council in the distribution of these funds.

Yours sincerely,
Judy La Marsh.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 24

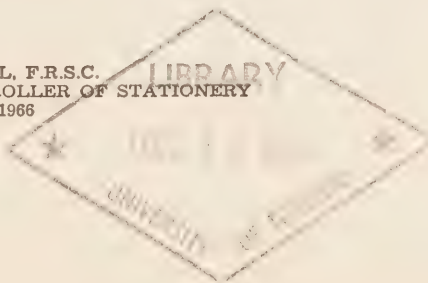
THURSDAY, NOVEMBER 3, 1966

Annual Reports of Central Mortgage and Housing
Corporation 1963 and 1964

WITNESSES:

From the Central Mortgage and Housing Corporation: Mr. H. W. Hignett,
President; Mr. Jean Lupien, Vice-President; and Mr. R. W. Des-
barats, Comptroller.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Schreyer,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Stafford,
Mr. Cameron	Mr. Morison,	Mr. Tardif,
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Dionne,	Mr. Noble,	<i>neuve-Rosemont</i>),
Mr. Flemming,	Mr. Prittie,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, November 3, 1966.

(34)

The Standing Committee on Public Accounts met this day at 10.00 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Bigg, Dionne, Flemming, Forbes, Gendron, Hales, Lefebvre, McLean (*Charlotte*), Morison, Noble, Tardif, Thomas (*Maison-neuve-Rosemont*), Tucker (13).

In attendance: From Central Mortgage and Housing Corporation: Mr. H. W. Hignett, President; Mr. Jean Lupien, Vice-President; Mr. R. W. Desbarats, Comptroller; and Mr. K. D. Tapping, Secretary to the Board.

The Chairman introduced Mr. Hignett, President of Central Mortgage and Housing Corporation, who in turn introduced his associates.

Mr. Hignett gave the Committee a brief history of the formation of the Corporation, its powers under the Central Mortgage and Housing Corporation Act, R.S.C. 1952, C.46 amended by S.C. 1965, C.8 and the nature of its operations.

Mr. Hignett and his officials were examined by the Committee with respect to the accounts of Central Mortgage and Housing Corporation for the years ended December 31, 1963 and December 31, 1964.

On motion of Mr. Noble, seconded by Mr. Tucker,

*Agreed,—*That Central Mortgage and Housing Corporation Annual Reports for the years 1963 and 1964 be tabled as EXHIBITS XII and XIII.

At 12.45 p.m. the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 3, 1966.

The CHAIRMAN: Gentlemen, we have a quorum. First of all, I regret that I was unable to be present at Tuesday's meeting, and I thank Mr. Lefebvre, our Vice-Chairman, for chairing the meeting.

This morning we have before us the officials of the Central Mortgage and Housing Corporation, and I think I am correct in stating that this is the first time they have ever been before the Public Accounts Committee.

The reasons for inviting them are, first, we want to know something about the operations of the Corporation and, secondly, we thought we would be well-advised to have one or two corporations that are not audited by the Auditor General because they do not fall under his jurisdiction, and this is the case with the corporation before us this morning.

Mr. Hignett, president of the corporation, is present, and I will ask him to introduce the officials of his department. We will proceed with a brief introduction of the corporation and its operations, and then I will throw the meeting open for questions.

Mr. H. M. HIGNETT (*President, Central Mortgage and Housing Corporation*): Mr. Chairman, hon. members, the Central Mortgage delegation this morning includes Mr. Jean Lupien, who is a vice president of the corporation and a member of the corporation's board of directors; Mr. Keith Tapping, who is the secretary to the board of directors, and Mr. Desbarats, the comptroller of the corporation. This is the corporation's delegation this morning.

The CHAIRMAN: Proceed, Mr. Hignett.

Mr. HIGNETT: I wonder, Mr. Chairman, if it might be useful to the members if I spoke briefly about the corporation itself; its functions, and the manner in which it draws funds to carry out these functions. In so doing, perhaps I could refer briefly to the two acts that control the activities of the corporation, the Central Mortgage and Housing Corporation Act and the National Housing Act; have members a copy of these acts?

The CHAIRMAN: They have been distributed, I understand.

Mr. HIGNETT: Central Mortgage and Housing Corporation is about to have its twenty-first birthday. The Central Mortgage and Housing Corporation Act was passed in 1945, and the corporation became effective on the 1st of January, 1946. If I could refer to the act and sections that I think might be of interest to the members, section 3 on page 2 reads:

There is hereby established a Corporation called the "Central Mortgage and Housing Corporation" consisting of the Minister and those persons who from time to time comprise the Board of Directors.

A second qualification on the corporation is found in section 5(5):

The Corporation shall comply with any directions from time to time given it by the Governor in Council or the Minister respecting the exercise or performance of its powers, duties and functions.

So even though the corporation is listed as a proprietary corporation, it is very firmly under the control of the government.

The board of directors of the corporation is comprised of ten persons: The president, who is the chairman of the board of directors and the chief executive officer of the corporation; a vice president, and three members of the public service. The three members of the public service currently are Mr. Bryce, the deputy minister of Finance; Mr. R. G. Robertson, the Clerk of the Privy Council, and Mr. J. F. Parkinson, who is a financial advisor in the Department of Finance. The president and vice president are appointed by Governor in Council for a term of office of seven years. The three other public servant members of the board are appointed during pleasure, and may serve until they are changed by Order in Council.

There are five members of the board who are not public servants but who are citizens, representing the five economic regions of Canada; one from the Atlantic provinces, one from the province of Quebec, one from the province of Ontario, one from the prairie provinces and one from British Columbia. These five directors are appointed for a term of office of three years and, at the conclusion of their three-year term, such directors are eligible for reappointment.

In addition to the board of directors, section 10 on page 4, provides:

There shall be an Executive Committee of the Board consisting of the President, the Vice-President and two other directors selected by the Board.

The executive committee meets every two weeks and, on behalf of the board, conducts the affairs of the corporation. It is customary for the full board to meet about five times a year.

The board manages the affairs of the corporation and is responsible for the conduct of its business.

Section 14 (1) on page 5 reads:

The Corporation may on its own behalf employ such officers and employees for such purposes and on such terms and conditions as may be determined by the Executive Committee and such officers and employees are not officers or servants of Her Majesty.

The CHAIRMAN: Mr. Hignett, there may be a question there. Can you give us an explanation? Does this mean that you do not fall within the Civil Service Commission regulations?

Mr. HIGNETT: Yes, it does. The president, and the three vice-presidents—only one of whom is a member of the board of directors—are appointed by the Governor in Council and, as such, are public servants in the ordinary sense. But all of the employees of the corporation are not public servants in the sense that

they come under the Civil Service Commission or the Civil Service Superannuation Act. The Corporation has its own pension fund.

Section 15 on page 6 reads:

The Corporation may establish branches or employ agents in any part of Canada.

You may have noticed from the annual report that the corporation, at the moment has five regional offices in the five economic regions of Canada, and has 55 branch or local offices.

Section 17 on page 6 refers to the capitalization of the corporation, whereby the corporation was capitalized at the outset by \$25 million drawn from the consolidated revenue fund.

Section 22 on page 7 provides the authority to borrow such funds as have been appropriated by parliament for national housing act purposes from the Minister. We are required of course not to borrow more money than is provided in the statute or that is needed to carry out the affairs of the corporation. Advances made by the Minister to the corporation are evidenced by debentures which the corporation issues to the Minister as he may require. Section 23 on page 7, requires that the corporation repay the advances made by the Minister in accordance with collections made as a result of the corporation's operation.

Section 24 on page 8 makes reference to the Minister reimbursing the corporation for losses that may occur in the administration of the National Housing Act and the preceding acts.

Page 9 relates to the ancillary powers of the corporation and gives the corporation wide powers to administer mortgages and real estate. It is interesting to note in that one and in part II on page 10, that the corporation is authorized to make payments in lieu of taxes on all property administered by it as if it were not an agent of the Crown.

Clause 30 on the same page provides that the corporation be authorized to create an operating reserve not exceeding \$5 million.

Page 11, Part III of the act refers to the audit. The Minister, with the approval of the governor in council appoints two auditors to audit the affairs of the corporation. An auditor so appointed, serves for a term of two years and cannot be reappointed until one year following. He must withdraw for at least one year. The auditor is required to submit a report to the Minister within 10 weeks of the end of the corporation's fiscal year, which is the calendar year. I think these are the features of the Central Mortgage and Housing Corporation Act.

The CHAIRMAN: Mr. Hignett, before we leave this act, I am sure there are some questions concerning the audit. This is the part the Committee is particularly interested in, and I would ask the members if they have any questions?

Mr. FORBES: Why is it that Central Mortgage and Housing is not audited by the Auditor General?

Mr. HIGNETT: Well, the legislation, when it was enacted 21 years ago, provided for an audit of this kind. The act has never been amended. I believe the Minister and the government have been content with the quality of the work

carried out by independent outside auditors appointed by the government for this purpose.

Mr. LEFEBVRE: Would you mind telling this Committee who your present auditors are?

Mr. R. W. DESBARATS (*Comptroller, Central Mortgage and Housing Corporation*): Mr. Valiquette of the firm of Anderson & Valiquette of Montreal and Mr. Ambrose of the firm of Clarkson Gordon of Toronto.

Mr. LEFEBVRE: Could you also tell us what is the cost for these two different accounting firms?

Mr. DESBARATS: It is \$15,500 each.

Mr. LEFEBVRE: That would be \$31,000 total?

Mr. BIGG: Are these full-time employees?

Mr. DESBARATS: No, they are independent auditors who were brought in.

Mr. LEFEBVRE: The Auditor General provides Parliament with a book every year on things that he has noted in the accounting of different crown corporations within the government and government departments that he audits. Do your auditors provide you with such a pamphlet or book on your particular corporation?

Mr. DESBARATS: It provides a report.

Mr. LEFEBVRE: Just the report that is tabled in the House?

Mr. DESBARATS: No, they provide a separate report on the activities, which would include, as you say, the observations they may wish to make.

Mr. LEFEBVRE: Has this ever been supplied to a Public Accounts Committee?

Mr. DESBARATS: No.

Mr. LEFEBVRE: Is there anything within the act that would prevent this Committee from acquiring a copy of this report?

Mr. HIGNETT: Mr. Lefebvre, it is a document that is placed in the hands of the Minister and, as such, I do not think that the management of the corporation could undertake to make it available to the Committee because it is not a corporation document in that sense.

Mr. LEFEBVRE: Perhaps the Chairman could inquire into this to see if this could be brought to the attention of the Committee. It helps us a lot when we have the Auditor General's report and perhaps if we had had your auditors' reports we could have studied them beforehand, as a result of which we probably would be better equipped to make observations and put questions this morning to representatives of your corporation.

The CHAIRMAN: Mr. Lefebvre, in order that I understand you correctly, it is not just a financial statement; it is sort of a managerial observation that is provided to the corporation.

Mr. LEFEBVRE: Yes, like the Auditor General's report, which makes certain notifications of things that happen during the year, and when we have witnesses here then it is easier for us to ask more intelligent questions.

Mr. McLEAN (*Charlotte*): Mr. Chairman, there is a decided difference in audit. They may have rather an internal audit; they get the explanations from the management, and that is as far as it goes. When they sign the balance sheet they say, according to all the answers and so forth and so on, that is true. But this detailed audit only gets as far as management. They tell them what is wrong and they want it fixed up.

Mr. HIGNETT: It goes to the Minister, sir.

Mr. DESBARATS: It is a report to the Minister—and not to management.

Mr. McLEAN (*Charlotte*): Is it not a detailed audit?

Mr. DESBARATS: As detailed as an external auditor will do. It is a spot check to ensure that the operations of our internal auditor have been carried out efficiently.

Mr. McLEAN (*Charlotte*): You have an internal auditor?

Mr. DESBARATS: Oh, yes.

Mr. HIGNETT: We have a large internal audit section that audits the continuing activities of the corporation.

Mr. McLEAN (*Charlotte*): How many do you employ in your auditing staff?

Mr. DESBARATS: We employ 34.

Mr. HIGNETT: These auditors visit each one of the corporation's 55 branch offices annually to audit the local operation as well as the head office operation. These men are working continuously.

Mr. FORBES: I note by the Auditor General's report that other crown corporations are audited by the Auditor General. Why is Central Mortgage and Housing exempt?

Mr. HIGNETT: Simply by the legislation, Mr. Forbes.

Mr. FORBES: Is this not something we could work on?

The CHAIRMAN: Yes I think so, Mr. Forbes. The point is the government of Canada is providing the moneys to run this corporation, and one would think the Auditor General of Canada should be in on it somewhere along the line. Apparently it has never been this way.

Mr. LEFEBVRE: Mr. Chairman, is this the only crown corporation in which the Auditor General does not have some say in the auditing?

Mr. HIGNETT: No, sir.

Mr. LEFEBVRE: But is it not correct there are some in which he is a joint auditor?

Mr. DESBARATS: That is right.

Mr. HIGNETT: There would be nothing to preclude the government from appointing the Auditor General as one of these two auditors.

Mr. LEFEBVRE: Under the present act?

Mr. HIGNETT: Yes, the only difficulty being that under the present legislation he could serve for only two successive years and then would have to drop for at least one year.

Mr. LEFEBVRE: Unless the act was changed that he could be a permanent joint auditor. Mr. Chairman, could we make a recommendation to this effect in one of our reports?

The CHAIRMAN: Yes. Mr. Lefebvre, you point is well taken and it will be discussed further. Are there any other questions on this audit question? I have a question. Why are there two firms of auditors? Why would one not be able to operate more efficiently?

Mr. HIGNETT: I think it is more a question of continuity. One auditor is appointed each year and, therefore, you have one new auditor every year and one auditor who has had years of experiencing auditing the affairs of the corporation.

Mr. FORBES: That is what I was trying to get at. Why drop both auditors at the same time.

Mr. HIGNETT: We drop one each year.

The CHAIRMAN: If the Auditor General was the auditor, you would have continuity year in and year out, as I understand the situation.

Mr. HIGNETT: But at the moment we drop one each year.

The CHAIRMAN: Yes. Is there anything else under the audit section? If not, we will then proceed.

Mr. HIGNETT: If I may turn to the National Housing Act and deal briefly with some of the salient features of the act which may be of interest to the members, I might turn, first, to section 4 on page 4 which provides that "the Governor in Council may by regulation prescribe the maximum rate of interest payable by a borrower in respect of a loan made under this act." And there are a number of rates. The first one refers to Part I which is that part known as the insured lending provisions of the National Housing Act where the approved lenders—the life insurance companies, the trust and loan companies, the chartered banks and the mortgage loan companies—may make loans to borrowers for home ownership or for rental housing purposes. The act provides that there can be a spread of $2\frac{1}{4}$ per cent in respect of such loans but in point of practice the spread between the National Housing Act interest rate and long term government bonds has very seldom exceeded $1\frac{1}{2}$ per cent?

Mr. McLEAN (*Charlotte*): These are guaranteed loans?

Mr. HIGNETT: These are guaranteed loans.

Mr. McLEAN (*Charlotte*): Why should there be such a spread if it is guaranteed by the government?

Mr. HIGNETT: These are loans which are made in the money market. At the present time the National Housing Act rate is $6\frac{3}{4}$ per cent for such loans.

Mr. McLEAN (*Charlotte*): That would be mortgage loans on property?

Mr. HIGNETT: On housing for home ownership purposes and on all forms of rental housing built under the National Housing Act.

Mr. McLEAN (*Charlotte*): If they went to the banks, would the banks have to lend money for this purpose at 6 per cent?

Mr. HIGNETT: At the moment, and, of course, this is the reason why for a number of years, since 1957, the banks have made no N.H.A. loans.

Mr. McLEAN (*Charlotte*): The government has no lid but the banks have a lid.

Mr. HIGNETT: Yes. The government has no lid in the sense that the lid is $2\frac{1}{4}$ per cent above the long term government yield. That is the maximum that could be set, which, in my experience, has—

Mr. McLEAN (*Charlotte*): That would be $8\frac{1}{4}$ per cent would it not, 6 per cent plus $2\frac{1}{2}$ per cent?

Mr. HIGNETT: No, sir; the present long term yield is just under $5\frac{3}{4}$ per cent. The maximum rate which could be established would be 8 per cent.

Mr. McLEAN (*Charlotte*): You are only charging $5\frac{3}{4}$ per cent?

Mr. HIGNETT: No $6\frac{3}{4}$ per cent.

Mr. McLEAN (*Charlotte*): $6\frac{3}{4}$ per cent.

Mr. HIGNETT: Yes.

Mr. McLEAN (*Charlotte*): You are $\frac{3}{4}$ per cent above the banks?

Mr. HIGNETT: Yes $\frac{3}{4}$ per cent above the bank lending rate but the bank lending rate, as you know, sir, is likely to be changed in the near future.

Mr. McLEAN (*Charlotte*): I do not know about that.

Mr. HIGNETT: Perhaps I should not have used the term "likely". I should have said it is being discussed.

If I could just comment on this interest rate, there are two kinds of loans which account for the bulk of housing starts in Canada. The National Housing Act which traditionally accounts for about $\frac{1}{3}$ of all housing starts in Canada and conventional lending, that is lending done by what we call the conventional lenders, actually the same institutions—except the chartered banks—on a conventional basis at rates of their own choice but uninsured.

The current conventional lending rate in Canada ranges between $7\frac{1}{2}$ and 8 per cent and on this basis with these rates, the institutional lenders by and large have withdrawn from the National Housing Act. The participation by the approved lenders in the National Housing Act this year is very, very low, indeed. Of course, this has put additional pressure on Central Mortgage and Housing Corporation's authority to make direct loans.

If I might just refer to part (2) (c) of this section, it says that loans made under this section "shall not exceed the interest rate on long term Government bonds by more than one-half of one per cent. . .". Now, these are special lending programs and the sections to which they refer are 16, limited-dividend housing corporation for low income families; 16A, non-profit corporations for elderly persons; 23C, loans made to municipalities for urban renewal purposes; Part VI, loans to public housing agencies; Part VIA, loans to universities for students' residences and Part VIB are loans for sewage treatment projects. They are all made at a preferred rate.

Again, I should say that although the act provides for a ceiling of one-half of one per cent over long term government bonds, it has been the practice for

many years to establish the rate one-quarter above long term government yields.

Mr. FORBES: How do you provide for a situation where there is a variation of rates? In all cases would the security be equivalent to the loan or what is the basis for this?

Mr. HIGNETT: The basis for this is that all of the loans to which I have referred under Part C are made by the government of Canada. They are not made by private lending institutions at all and they are made for very special purposes which, in the eyes of the government, deserve a special consideration as to interest rate.

Mr. FORBES: Yes, but it seems to me there is some discrimination here if one project would pay one rate of interest and another one another rate of interest. If the government is interested in promoting these various activities, why do they have a variety of interest rates?

Mr. HIGNETT: Well, in Part C again, the loans to which I have just referred have one common characteristic, that they are all non-profit organizations to whom the loans are made. They are made to municipalities, to universities, to a province, to a charitable organization, but they all have the same essential feature that they are non-profit organizations.

Mr. FORBES: Supposing a university applies for a loan and a municipality applies for a loan. Why would they both not be entitled to the same rate of interest?

Mr. HIGNETT: They would be.

Mr. FORBES: They would be?

Mr. HIGNETT: Yes, they would be.

Mr. FORBES: I am sorry, I misunderstood you.

Mr. HIGNETT: The part of the act which creates the majority of housing starts in Canada under the National Housing Act is Part I. Part I refers to the insured lending system. Section 40 of the act also provides that where in the opinion of the corporation a loan, under Part I, is not available from an approved lender, within the funds available made to a corporation by the government for this purpose, the corporation may make a direct loan under the same terms and conditions as if it were made by an approved lender. Section 10 on page 12, relates to the establishment of a fund to be known as the Mortgage Insurance Fund. Every borrower who borrows under the insured lending section pays an insurance fee. The insurance fee for home ownership is generally 2 per cent and for rental purposes $2\frac{1}{2}$ per cent. This fee is deposited in the mortgage insurance fund and the mortgage insurance fund is used to pay claims to the approved lenders or to the corporation in the event of default.

The CHAIRMAN: Mr. Hignett, is this insurance fund operated within your own corporation or do you farm out this insurance?

Mr. HIGNETT: No, the corporation is the trustee of the fund.

The CHAIRMAN: Has this been a profitable fund?

Mr. HIGNETT: Well, if I could use the 1964 Housing Act, statement 7 on page 27 of the English version—the same in the French section of the Act—at the end

of 1964 the total assets of the fund were \$130,606,345. As you can see, the bulk of these assets, \$85,927,000, are held in securities issued or guaranteed by the Government of Canada. This portion of the fund is, of course, the liquid portion, so the fund at the moment has still quite a high degree of liquidity. The \$21 million in mortgages arises out of properties that the fund has acquired resulting from default and have resold. It is the custom of the fund to sell housing so acquired under the same terms and conditions as apply under Part I of the National Housing Act.

The CHAIRMAN: Further to my question, I take it that the profit in the mortgage insurance fund is \$130 million?

Mr. HIGNETT: These are the total reserves, sir.

The CHAIRMAN: You have gathered these reserves by means of profits made within the organization?

Mr. HIGNETT: No sir, these reserves are gathered simply by an accumulation of the fees and the earnings of the fund itself.

The CHAIRMAN: This is a very considerable sum of money in this reserve fund. Have you given any thought to reducing your rate charged to the borrower? What is your rate now?

Mr. HIGNETT: The rate is 2 per cent for homeowner loans and 2½ per cent for rental loans.

The CHAIRMAN: You could reduce that to 1 per cent and still be on the safe side.

Mr. HIGNETT: We have recently completed a study of the fund done by the corporation's economics and statistical division and the results of this study indicate, assuming the worst situation that could reasonably be expected—that is a substantial decline in the housing market for a period of six years followed by a favourable market for the next 11 years—that the fund would require assets of \$321 million to meet the commitments with which it might be faced. We believe that at the present rate of growth the fund will reach \$321 million, by about 1975, assuming that conditions remain pretty much as they are now for the next nine years. If this is the case, then the holdings of the fund would equate with the worst situation that we can see for the fund.

Mr. BIGG: This 2 per cent, I assume, is added onto the 6.75 per cent?

Mr. HIGNETT: It is 2 per cent of the loan.

Mr. BIGG: Well, if you are paying 6.75 per cent on the main loan then you would pay 8.75 per cent in total?

Mr. HIGNETT: No. It would have a fractional effect on the interest rate, less than a quarter of one per cent. The interest rate is 6¾ per cent for the whole loan and the whole loan is made up of the complete valuation of the house plus the insurance fee. In other words, the loan made by the approved lender or made by the corporation to the borrower includes, as well, a loan of the amount of the insurance fee, being 2 per cent.

Mr. BIGG: You are paying actually 6¾ per cent of the 2 per cent of the capital.

Mr. HIGNETT: That is right.

Mr. BIGG: You are not paying 8.75 per cent on the original loan?

Mr. HIGNETT: The borrower actually borrows the amount of the fee from the lender, whoever he is, at $6\frac{3}{4}$ per cent.

Mr. BIGG: So it is as you say, a fraction of one per cent?

Mr. HIGNETT: You might remember the American technique, they have a continuous fee of one quarter of one per cent per annum on the declining balance. Of course, this is a much more expensive way of doing it than the single fee used by the Canadian legislation.

Mr. McLEAN (*Charlotte*): You are projecting ahead to 1975? In this projection, do you take into consideration that the purchasing power of our money is going down about 2 per cent a year?

Mr. HIGNETT: This has been done in constant dollars, Mr. McLean.

Mr. McLEAN (*Charlotte*): It is not taken in. So if this 2 per cent takes place every year it is to the advantage of the borrower. If it keeps on and you have it for 20 years, and his salary rises, then it is to his advantage if you have not projected this as your cost.

Mr. HIGNETT: While it is true that inflation is taking place each year the cost of housing is increasing at about the same rate. As the cost of housing increases mortgage loans get bigger, and since the fee is related directly to the mortgage loans the fees tend to rise as well.

Mr. McLEAN (*Charlotte*): Then you would want to get your mortgage on as soon as possible.

Mr. HIGNETT: Twenty years ago the maximum N.H.A. loan was \$5,000, now it is \$18,000 and it produces substantially the same house.

Mr. McLEAN (*Charlotte*): I notice the depreciation of the buying power of the dollar in Canada was much larger last year than it was in the United States.

Mr. HIGNETT: I think this is so.

Mr. NOBLE: Mr. Chairman, I would like to know what are some of the liabilities of the insurance companies?

Mr. HIGNETT: Well, if I can refer you to the bottom of the same table, the insurance in force on December 31, 1964 was \$4,934 million. That is the unpaid balances of all the mortgages that have been insured.

Mr. NOBLE: Where is this, Mr. Hignett?

Mr. HIGNETT: At the bottom of statement 7, the last two lines of the mortgage insurance fund. It is statement 8—I am sorry—on page 27, immediately underneath the total of \$130,606,000. These were the total liabilities of the fund at that moment of time.

The CHAIRMAN: Roughly \$5 billion.

Mr. HIGNETT: It might be of interest to members to know that at the end of 1965, one year later, the assets of the fund were \$149 million and the insurance in force was then \$5,321 million.

The CHAIRMAN: Are there any further questions?

Mr. LEFEBVRE: On this statement no. 8 of the mortgage insurance fund you have there, under assets, securities issued or guaranteed by the Government of Canada at amortized cost. You show there \$85,927,540. Is this the actual present day market value of your securities or the value when you purchased them.

Mr. HIGNETT: The cost.

Mr. LEFEBVRE: Have they increased since then. What does this \$85 million represent actually, what you could sell these securities for?

Mr. HIGNETT: No. This is the cost price of the bonds at the time we bought them.

Mr. LEFEBVRE: What would they be worth today? Would they be worth more than this?

Mr. HIGNETT: I think it would be less at this time.

Mr. LEFEBVRE: They would be worth less now?

Mr. HIGNETT: Yes, but the mortgage insurance fund does not deal in the market. The only time that the mortgage fund would ever sell bonds would be to meet a liquidity problem because these bonds have very considerable earning power.

Mr. LEFEBVRE: What I am getting at is, if they are worth more or less, this column under assets does not really add up to what the actual value is.

Mr. DESBARATS: No. We have our portfolio arranged in such a way that a number of bonds will fall due in each year so that we are always buying to maturity, not buying with the idea that we will buy and sell and play the market with these bonds.

Mr. LEFEBVRE: You have no idea of what the market value is?

Mr. DESBARATS: No, not at the moment. It is not in the back of my head.

The CHAIRMAN: Mr. Lefebvre; I think that is a good question.

Mr. HIGNETT: I repeat. We do not sell these bonds so the market value is of little interest to the fund. What we are concerned with is the earnings of the bonds and their value at maturity, which is always par.

Mr. LEFEBVRE: What I am getting at is that if this was an ordinary business corporation they would certainly like to know what the market value of these securities are, for their shareholders' benefits.

Mr. DESBARATS: We have this value but I have not it in the back of my head in relation to those bonds.

The CHAIRMAN: Is it not a fact that other corporations include in their financial statements the present day value of their securities?

Mr. DESBARATS: Yes.

The CHAIRMAN: Why do you not do that?

Mr. DESBARATS: I do not know. We have just never thought of it as being of vital interest to us, so far as the corporation is concerned.

Mr. HIGNETT: We have always been able to meet the annual requirements of the fund for cash out of the current income of the fund in that year, so that \$85 million, which represents investment in Government of Canada's, is also a growing part of the fund. It is not a part of the fund that we have been obliged to use for cash liquidity.

Mr. LEFEBVRE: Will this be provided to the committee as an appendix to today's proceedings?

Mr. HIGNETT: Yes, we would be glad to tender it to your committee.

Mr. LEFEBVRE: Could we have it for the years 1963-64 and perhaps 1965 if it is available?

Mr. NOBLE: Mr. Chairman, I would just like ask if the insurance company invests in any bonds other than government bonds?

Mr. DESBARATS: I am sorry, but I have it here on a separate sheet. The market value of the insurance fund, as at the 31st December 1964, was \$81,995,000.

The CHAIRMAN: Just to follow that up a little further, Mr. Desbarats. This amount that appears under assets of roughly \$86 million was worth, when this statement was drafted, \$81 million some odd.

Mr. DESBARATS: Do you want 1963?

The CHAIRMAN: No, we will just stay with this one and pursue this a little further. In other words, you are stating in your asset sheet here that this is roughly \$86 million, and really it is only \$81 million.

Mr. DESBARATS: If we sold the bundle at that time.

The CHAIRMAN: Well, is this not the way an ordinary business would operate?

Mr. HIGNETT: No.

Mr. DESBARATS: No, sir. They would show, as a footnote to their annual statement, that this is the market value.

The CHAIRMAN: But you do not do that?

Mr. DESBARATS: I have it on another piece of paper. No, I do not do that on this. You are quite right.

The CHAIRMAN: You do not show it.

Mr. DESBARATS: No, I do not.

The CHAIRMAN: I think this might be a recommendation of the committee.

Mr. LEFEBVRE: If I was a shareholder in your company I would certainly like to know, under assets, whether this is \$5 million less than you show it on your sheet so that as a shareholder I would know what is going on.

The CHAIRMAN: Mr. Bigg?

Mr. BIGG: I would like to know, if you have a research department which is seized with the responsibility of figuring out what effect your policies have on private enterprise, are you not absorbing the housing markets all over the country?

Mr. HIGNETT: Mr. Bigg, the essence of the National Housing Act, in the insurance lending section, is one of private enterprise. The reason for the insurance is to encourage private lending institutions to make loans to private persons, be they home owners, builders of houses, landlords or investors in housing. The Corporation's position is simply that of insuring an operation which is to all intents and purposes private. The *quid pro quo* is that private lending institutions whose loans are insured are expected to take a lower rate than is available for them in the conventional field, and there is always a spread between the N.H.A. rate and what is termed a conventional rate. But it is a private enterprise in the truest sense in that the lenders decide to what extent they will lend, in what parts of the country they will lend, and to whom they will lend. In the direct lending operations of the Corporation, as a lender—and we are the largest single lender in the country—we, too, deal entirely with private enterprise in the insured lending section of the act, where we make loans to individual home owner borrowers or to builders building houses for sale. The Corporation as a direct lender has not ventured very far into the rental housing field.

Mr. MORISON: If I may go back to the securities question again, do you buy to support the bond market, or is this completely out of your department?

Mr. HIGNETT: No, sir.

Mr. LEFEBVRE: You have here real estate at Elliot Lake, an estimated realizable value (1963 at cost less recoveries under guarantees). Are these the homes at Elliot Lake that have been abandoned and boarded up?

Mr. HIGNETT: Yes.

Mr. LEFEBVRE: Would you elaborate on this?

Mr. HIGNETT: If I might go into it at perhaps an excessive length, Elliot Lake was built to support the uranium industry. It was a town sponsored by the province of Ontario and the National Housing Act was used extensively to create this town. It was the opinion of the Corporation at the time that it would be improvident of the Corporation to make loans for 25 years amortization, which is the shortest reasonable period for a home owner, in the face of what was a seven year contract to supply uranium.

Mr. LEFEBVRE: These loans were made on a 20 year basis?

Mr. HIGNETT: On a 25 year basis.

Mr. LEFEBVRE: They had only a seven year contract?

Mr. HIGNETT: The uranium companies had only a seven year contract to supply. This caused lengthy discussions among the would-be borrowers, the owners of the uranium mines and ourselves. We finally agreed that the uranium companies would give the Corporation a guarantee in which they would pay one-half of the losses that occurred by default on any house up to a maximum of \$2,700 per house. When the uranium market got itself into deep trouble, its effect on Elliot Lake was very rapid. The mining companies, generally speaking, had also entered into an arrangement with all of the employees of the mining companies who owned houses in Elliot Lake, that in the event of distress the mining companies would buy back the houses from the employees, and in

all cases, except one, this occurred. The borrowers in Elliot Lake were able to leave their houses—that is, those who left the community—without loss.

Mr. LEFEBVRE: In other words, they got their down payment refunded to them?

Mr. HIGNETT: No, not their down payment. They got the cost price of the house less an agreed depreciation per annum. This was in the form of depreciation. So, by and large the distress occurred so quickly—it was only a matter of four or five years—the home owners came out of it pretty well. We were then obliged to call on the guarantees between the mining companies and the corporation. During the growth of Elliot Lake, 1,394 loans were made for 1,889 units, some of these being rental units in the form of apartments.

Mr. LEFEBVRE: How many homes would this \$7.5 million represent at the present time, on which no payments are being made?

Mr. HIGNETT: It represents 1,484 homes.

Mr. LEFEBVRE: Are there 1,484 homes boarded up and empty?

Mr. HIGNETT: No, sir. If I could just deal with the other matter, if I could get my fingers on it. The mining companies, in settling with the corporation, paid to the corporation in cash \$3,530,000.

Mr. LEFEBVRE: Was that their complete obligation?

Mr. HIGNETT: That was their complete obligation.

Mr. LEFEBVRE: They fulfilled their obligation?

Mr. HIGNETT: Yes. This meant that the corporation acquired in the process 1,484 houses, and a decision had to be made as to what to do with Elliot Lake. It was possible that the houses could be removed; it was possible that they could be demolished and the corporation could cut its losses, or it was possible to try and maintain the town in the hope that uranium might recover. We elected the last choice, and we instituted an arrangement which we thought would best suit the people who still lived at Elliot Lake, and there were three kinds. There were those whose income had fallen to less than \$3,600, and the corporation rented to such persons a house at 20 per cent of his income, whatever it may be. The second group were people whose income was between \$3,600 and \$4,800, and a formula was arrived at where all such persons would pay a flat rent of \$70 a month. Then, the third group were those people who were still miners and still relatively highly paid. The rent which they paid for the house was the equivalent of the principal, interest and taxes had it been still a mortgage account and in Elliot Lake this meant an average of about \$95. So, we had three distinct rent levels.

Mr. LEFEBVRE: Would these all be people who had purchased homes under the act and who had then received a refund on their money on the basis you have explained, and then became tenants?

Mr. HIGNETT: Yes, tenants of the corporation. Of course, new people came in, and this arrangement has been in effect now for about six years. By using this technique we have managed to keep 900 of these houses occupied. The vacant houses have ranged between 400 and 500 throughout this period.

At the present moment the situation at Elliot Lake is improving, as we had hoped it would. In the first six years during which we owned these 1,400 houses, we sold six of them to people who wanted them specially. Some of them are very well located on the shores of Elliot Lake. This year we have sold 200 and we have sold them at prices which recovered fully the interest of the mortgage insurance fund in them without loss. The situation is changing at Elliot Lake and we are rather hopeful.

Mr. LEFEBVRE: With these new sales of uranium do you feel all the homes may be occupied?

Mr. HIGNETT: We think so. The characteristics of Elliot Lake in its hey-day, when it had a population of 25,000 people, was that about 12,000 of these lived in these houses and the other 12,000 odd lived in trailers. All the trailers are now gone. The community has a permanent housing capacity for about 12,000 people. The present population is about 9,000, but there is every hope that this will grow to 12,000 within the next few years.

We maintain the houses which are vacant because we do not want Elliot Lake to look as if it is a community that is running down; we treat them, in many ways, as if they are occupied, and we paint the exteriors every four years, which we do with corporation-owned houses. The houses themselves are in reasonably good condition, and they could be occupied on very short notice.

Mr. BIGG: Do you people have anything to do with houses on National Defence establishments in places like Cold Lake?

Mr. HIGNETT: We build them, sir.

Mr. BIGG: Is that the end of it?

Mr. HIGNETT: That is the end of it. We build them and turn them over to the Department of National Defence for administration. We build them with funds provided in the estimates of the Department of National Defence.

Mr. BIGG: Is this a service to the department?

Mr. HIGNETT: It is a service to the Department of National Defence.

Mr. NOBLE: Mr. Chairman, I would like to revert to the question of Elliot Lake. Did the people who owned these houses, which the corporation had to take back, lose all their equity in them?

Mr. HIGNETT: No, sir. The formula provided that the selling price of the house, which includes equity, be reduced by a depreciation rate which, I think was $2\frac{1}{2}$ per cent per annum and, in return, for living in the house for one year, the formula declined by $2\frac{1}{2}$ per cent.

Mr. NOBLE: If you sold one of those houses in which someone had equity, would you pay off the former owner?

Mr. HIGNETT: Well, of course, we could not sell it if someone else owned it. Once the corporation acquires it, we own it outright.

Mr. NOBLE: If the corporation took the house over and somebody had an equity in it, would you not own the house?

Mr. HIGNETT: When we own the house no one else has an equity in it.

Mr. NOBLE: Oh, I see; you would pay them off.

Mr. HIGNETT: No; we do not take a house unless the mortgage is in default.

Mr. NOBLE: I see.

Mr. HIGNETT: If we foreclose, then all rights and interests of the former owner are extinguished—and, of course, so are all his responsibilities. At the time that these transactions were made, when the houses were passed back to the mines housing companies and thence from them to C.M.H.C., along with the mining companies guarantee, I question whether these houses were worth more than \$2,000 each. Therefore, the relief that was given to the home owners by the mining companies and C.M.H.C., indeed, was a very beneficial thing.

The CHAIRMAN: It would appear, Mr. Hignett, that Elliot Lake was a guinea pig project for the corporation, and at first you were very doubtful whether you could give a 25 year mortgage on a situation when the life of a mine was seven years and it turned out to be—

Mr. HIGNETT: It turned out to be an accurate forecast, although I must say at the time that we were in some considerable trouble with people who were working at mines in Elliot Lake and who were in desperate need of housing, and they were not very sympathetic with our dragging our feet in getting into Elliot Lake. I might say, however, it is standard procedure for the corporation to suggest to the owners of new industries that create single industry towns—and there are many of them, there are many being created this year in places like Gold River in British Columbia, in Fort McMurray in Alberta, Quevillon in Quebec, the Iron Ore Company in Labrador—where the community depends solely on the activities of a single industry and relies on the profitability of that industry for its existence; that they participate in the mortgage risk.

The CHAIRMAN: Has the corporation given any thought to mobile homes for similar situations, for example, if Elliot Lake had had mobile homes they would have been in a little better position.

Mr. HIGNETT: Well there were 10,000 trailers in Elliot Lake in its heyday, but these, of course, were financed by the trailer financing companies and not by the National Housing Act.

Mr. FORBES: Are you in the lending business in Thompson, Manitoba?

Mr. HIGNETT: Yes, sir.

Mr. FORBES: What extent of a loan can you obtain up there?

Mr. HIGNETT: You would get the same loan in Thompson as if it were in Winnipeg.

Mr. FORBES: I was basing this on your appraisal of houses in Elliot Lake. If the value of those houses after seven years was only \$2,000 for 25, they must have been a pretty low standard house to start with.

Mr. HIGNETT: No, no. Our housing in Elliot Lake was the same kind of housing that you would see in the suburbs of Ottawa or the suburbs of Toronto, and the loans made on them at the time were related to their construction cost and the loans were N.H.A. loans of a level as if they were in Toronto. This is why we were so concerned about the element of risk involved.

Mr. FORBES: Then how did you have such a low value of \$2,000 at the end of seven years on the houses?

Mr. HIGNETT: This was the market value of an empty community.

The CHAIRMAN: Which is not too high. Any other questions?

Mr. LEFEBVRE: If this new uranium sale had not taken place, this 7½ million would probably end up to be \$100,000; I mean this is just a book figure actually, is it not?

Mr. HIGNETT: No, this is our evaluation of our assets at Elliot Lake at the end of 1964, and what we thought they could bring if we put them on the market then.

Mr. LEFEBVRE: In the situation at that time?

Mr. HIGNETT: Yes.

Mr. DESBARATS: This is actually an appraisal based on Elliot Lake being revitalized within ten years; that was the assumption we took in appraising the market value for this purpose should it revitalize in ten years.

Mr. LEFEBVRE: Fortunately this might hold true.

Mr. DESBARATS: That is right.

Mr. NOBLE: Mr. Chairman, I would like to ask—and this may be a little ridiculous, but it is possible—could some private company walk into Elliot Lake now, say, when you might seem to be in a bad way and you had to take all these houses back, and buy all the houses they wanted for say \$2,000 a piece?

Mr. HIGNETT: No, sir.

Mr. NOBLE: You would not do that?

Mr. HIGNETT: No, sir. We elected to keep the houses.

I should say that at Elliot Lake, on the three rental formulas that I have described to you, the annual income has been about \$40,000 in rent derived from properties in Elliot Lake and this has been enough, by and large, to carry them, and the fund has earned sufficient money during the period that they are rented to carry them in the fund.

Mr. FORBES: What was the average cost of constructing those houses at Elliot Lake at the time they were built?

Mr. HIGNETT: It would be a guess, Mr. Forbes, but a pretty good guess in relation to the time in which they were built; they would have been built at a cost of about \$10,000 to \$12,000 depending on the type. Elliot Lake then, was a high cost area for construction; there was no road into it; everything was dragged in over winter trails; it was quite a business.

The CHAIRMAN: Now, gentlemen, I do not want to keep you too long, perhaps you would like to ask a few questions on the annual report of 1964. Are there any questions on this?

Mr. FORBES: Could I ask one question. Would you explain to me the difference in the set-up between the National Housing Act and the Central Mortgage and Housing Corporation Act?

Mr. HIGNETT: The Central Mortgage and Housing Corporation Act is an act that simply creates a corporation, and the corporate structure of that corporation, whose principle function is to administer the National Housing Act.

Mr. FLEMMING: I would like to ask Mr. Hignett a question—I believe he said a few minutes ago that generally speaking the directors of the corporation represented the five regions of Canada apart from those who are directors by virtue of being here in Ottawa. My question is I do not see in the list any director east of Montreal; would you explain this?

Mr. HIGNETT: Well, Dr. Laidlaw, who is shown as a resident of Ottawa, and who is the secretary of the Co-Operative Union of Canada, comes from Antigonish; it just so happens that he has moved to Ottawa, and now carries out his function on behalf of the co-operative association in Ottawa; but he is the representative for the Atlantic provinces.

Mr. LEFEBVRE: There are quite a few statements here—

The CHAIRMAN: How would it be if we follow it with some continuity, statement 1, on page 22 and 23, assets and liabilities. Are there any questions under that?

Mr. LEFEBVRE: This is a general question; maybe it is on this statement but I cannot see it, is there a statement here showing the net worth of your corporation?

Mr. HIGNETT: Our net worth I think is the sum of our assets, which at the end of 1964 was \$2,280,933,000.

Mr. LEFEBVRE: Less your liabilities.

Mr. HIGNETT: Which must be exactly the same.

Mr. LEFEBVRE: So there is no net worth. What is the equity of the government in this—

Mr. DESBARATS: It is \$30 million.

Mr. HIGNETT: The corporation was formed with a capital of \$25 million and was permitted to build an operating reserve of \$5 million. So that in each year the corporation is required to pay to the Receiver General all of its surplus over and above the capital and the reserve. This year, if you look at the bottom of page 25 statement 2, the balance at January 1 was \$5 million, which is the operating reserve of the corporation. The net income for the year was \$5,001,800. Profits realized on the sale of properties acquired without cost from the government of Canada \$5,007,000. So our total reserves at the end of the year were \$15 million. An income tax re-assessment for the years 1959 to 1962 was imposed by the income tax people of \$1,364,000.

Mr. BIGG: Do you mean that they can tax on profits to the corporation?

Mr. DESBARATS: Yes, indeed. Actually in 1952 the Income Tax Act was amended to provide that crown corporations would pay income tax.

Mr. HIGNETT: If you look again at that same statement, but above the black line, you see the corporation's net income again stated to be \$5,001,800 but above that the gross income before income tax was \$10,646,000; we paid \$5,645,000 in current income tax and our net income was \$5,001,800.

Mr. BIGG: And this is all turned over to the Crown?

Mr. DESBARATS: Every year we turn over our surplus.

Mr. HIGNETT: But it is turned over in two parts, one directly to the Receiver General and one to the Income Tax people.

The CHAIRMAN: Are there any further questions on assets or liabilities?

We will turn over to the operative statement, statement of net income. I notice under administrative salaries and expenses, you put it all in, in a lump sum. You do not give any details on this. This is not customary, is it? I think other corporations spell this out in greater detail than you have. Mr. Desbarats, as comptroller have you anything to say on that?

Mr. DESBARATS: I do not know if it is the custom to give more detail.

The CHAIRMAN: You do not even tell us what the salaries are for the corporation.

Mr. DESBARATS: Very few companies do put in all that information.

The CHAIRMAN: I have not one of the other corporations' financial statements in front of me but I am sure we get more detail than just one blanket statement.

Mr. HIGNETT: No, salaries and expenses; that is the usual.

Mr. DESBARATS: Then they will say income before the following deductions, interest on borrowed money and things like that.

Mr. HIGNETT: The operating budget of the corporation by bylaw of the board is submitted to the board at the beginning of each year and is approved by the Board of Directors and we are required to live within this budget. For example, in 1964, the year at which we are looking, of these salaries and expenses of \$14,500,000, the salaries and wages were—

Mr. DESBARATS: No, \$9,164,000.

Mr. HIGNETT: —\$9,164,979. This was the salary cost of the corporation.

Mr. FORBES: How many employees?

Mr. HIGNETT: There were in the annual reports at the end of the year, 2,055 employees.

The CHAIRMAN: Have you had a business consultant firm look over your operations and give you a report on the efficiency, and so on, of your operation. If so, when was the last report?

Mr. HIGNETT: When the 1954 act was passed, and the corporation began to enter the field of insured mortgage loans it brought into the field on a very large scale for a few years the chartered banks. We had to expand our field office operation on a geographical basis to cover the country in the same way that the chartered banks cover the country. In doing this, we opened up in total, including those that already existed, about 80 local offices. After three years experience we thought it would be wise to have this organization checked by others as well as ourselves, so we engaged Price Waterhouse management consultants to review our whole operation.

The CHAIRMAN: What year was that again?

Mr. HIGNETT: That was 1957. This was carried out in 1957 and early 1958. As a result of this review we again centralized our operations somewhat. We closed some of the more remote offices and those that did not seem to be economic.

The CHAIRMAN: I am familiar with one.

Mr. HIGNETT: And we centralized in our larger branches the accounting function for quite a large area, an area that might include a number of smaller offices and the central branch office in the area carried out a centralized function in the administration of mortgages and accounting in the management of real estate for the larger areas. This resulted over a period of time in a decline in our staff of about 300 persons. At that time our staff was of the order of 2,200 and some odd and it declined to about 1,900. Since that time we have not had management review done by private consultants but there has of course occurred since then, the Glassco report and while the Glassco Commission was doing its work our organization was examined very thoroughly.

The CHAIRMAN: In that regard, you may not have this offhand, but how many recommendations did the Glassco Commission make and how many have you implemented?

Mr. HIGNETT: As a result of our earlier review, we had already implemented a large number of procedural matters that the Glassco Commission recommended to the service at large. This had already been done; but, we reviewed the volumes of the Glassco Commission very carefully and we have adopted all those recommendations that appear to fit into the corporate structure of Central Mortgage and Housing Corporation.

The CHAIRMAN: How many did they make and how many did you implement?

Mr. HIGNETT: I am afraid I cannot answer that question offhand because many of them are hard to find.

The CHAIRMAN: Perhaps you could continue to look while we proceed.

Mr. HIGNETT: I should say that there were some recommendations made by the Glassco Commission that are really matters for the government and one of these was that the commission recommended that all of the activities of the Veterans Land Act Administration be discontinued and that this work be carried out by the corporation. This matter was reviewed by the government of the day and it was not acted upon. The V.L.A. still operates on its own with N.H.A. support.

The Glassco Commission also recommended that the administration of the home improvement loan section of the National Housing Act be done by the Department of Finance. This recommendation was not accepted as well by the government.

The CHAIRMAN: The home improvement loan is operated by the Department of Finance, is it?

Mr. HIGNETT: The home improvement loan is operated by C.M.H.C., but it was suggested that consideration be given to having the Department of Finance administer this section.

The CHAIRMAN: I see. It seems a rather peculiar suggestion to me. However, are there any other questions gentlemen?

Mr. LEFEBVRE: On statement No. 3 we have here "profits realized on sale of properties acquired without cost from the Government of Canada, \$5 million."

The CHAIRMAN: What page are you on?

Mr. LEFEBVRE: Page 25, Statement No. 3. What are these properties and why were they given to you to sell and put in your assets rather than the government sell them and put the revenue into the Consolidated Revenue Fund?

Mr. HIGNETT: When C.M.H.C. was formed there was an organization known as Wartime Housing Limited and Wartime Housing Limited had throughout the war years built about 17,000 houses in Canada and they were owned by Wartime Housing Limited. The affairs of Wartime Housing Limited were wound up at the end of the war, the effective date was the first of January 1947, and the 17,000 houses that had been built for war workers were turned over to the corporation for \$1. So we acquired a very considerable asset. Now these houses have since been sold, but they have been sold under N.H.A. terms and conditions; that is, they have been sold subject to a mortgage of about 90 per cent of their selling price at the time, and these are being repaid over a period of 20 years. These houses cost the Crown corporation nothing. But in accepting payments each year, we do acquire a substantial asset, and this is it.

Mr. LEFEBVRE: It shows almost \$5 million also in 1963. Are there many more of these homes that are not paid for yet? Is this going to be a continuing thing for another 20 years?

Mr. DESBARATS: No, it is running down. As the mortgages are paid off so it will run down.

Mr. LEFEBVRE: This will amount to a considerable sum of money over the years that you are showing in your assets.

Mr. DESBARATS: This is not an asset. The asset figure is on another page. This is actually the profit arising in this year from the sale of the houses which took place five years ago.

Mr. LEFEBVRE: There was no cost incurred by the corporation in order to make a \$5 million profit?

Mr. DESBARATS: That is right.

Mr. HIGNETT: That is why it is shown separately.

Mr. DESBARATS: It was agreed that this should be shown as a capital gain and not as an operating profit. That is why it is shown in this way as a capital gain and turned immediately over to the Crown.

Mr. FORBES: So you did not pay any income tax on this?

Mr. DESBARATS: No, sir.

The CHAIRMAN: I guess the question is why did not the government charge you for these houses?

Mr. HIGNETT: Well, they were built at the time, during 1942, 1943 and 1944, out of current revenues. They were written off the day they were built but they did represent, nevertheless, a very considerable asset of the government of Canada?

Mr. LEFEBVRE: Do you remember, sir, what was the total amount, the value when it was turned over to you?

Mr. HIGNETT: No, sir, we would not know, it was \$1. We do not know.

Mr. LEFEBVRE: How much was it worth to you though? Not how much you paid for it but how much you have gained from it?

Mr. HIGNETT: Well we have gained from it by selling these houses in the market at market prices.

Mr. LEFEBVRE: An approximate gain of \$5 million a year over the past—

Mr. HIGNETT: Well, it is a recovery for the government.

Mr. DESBARATS: We have been the agent of the government to recover that money.

Mr. LEFEBVRE: Have you transferred this to the government?

Mr. DESBARATS: We transfer this to the government each year. We had these houses because Wartime Housing was disbanded.

Mr. FORBES: Were these houses associated with defence projects?

Mr. HIGNETT: Yes.

Mr. FORBES: Were they on the airports and so on?

Mr. HIGNETT: They were everywhere. Then, after the war, of course, Wartime Housing first and then C.M.H.C. became involved in a very substantial program of housing for veterans. Now, all of these programs put together at one time made the corporation the landlord for 55,000 families. We owned 55,000 houses.

Mr. LEFEBVRE: Spread throughout Canada?

Mr. HIGNETT: All over Canada. Now, 52,000 of these houses have now been sold.

Mr. LEFEBVRE: You have no more equity in these houses?

Mr. HIGNETT: Well, except the mortgage payments that fall due on the first of each month.

The CHAIRMAN: Gentlemen, in five minutes it will be 11.30. We will adjourn at 11.30. Next page, financial statements 26 and 27. Are there any questions here? If not, I would like to ask one of Mr. Desbarats, the comptroller. Does your auditor confirm with the borrower the amount of loans?

Mr. DESBARATS: Yes, a percentage of the loans are confirmed. The auditor does in fact get confirmation that the borrower agrees that the amount on our books is the amount he owes.

The CHAIRMAN: Just a percentage, not on all of them?

Mr. DESBARATS: Not all of them, no. After all, we have over 200,000—no, we have over 150,000 and he could not confirm them all.

The CHAIRMAN: Is this percentage picked at random across the country?

Mr. DESBARATS: That is right, at random across the country.

Mr. HIGNETT: It is a pretty frightening experience also for a borrower when he receives a letter from a firm of chartered accountants saying "now do your records show that you owe C.M.H.C. \$10,300; will you please confirm that this right"?

The CHAIRMAN: Well, I think that is only good business, Mr. Hignett. I get one like that from the bank every month.

Mr. FORBES: You could get yourself a government job.

Mr. HIGNETT: But this is what is done.

The CHAIRMAN: That is the way it is done, on a percentage basis across the country.

Mr. HIGNETT: Our internal auditors are doing the same thing throughout the year, also on a percentage basis.

The CHAIRMAN: What percentage?

Mr. HIGNETT: We would say it would run between 10 per cent and 20 per cent.

Mr. LEFEBVRE: Do you change regions every year?

Mr. HIGNETT: Oh, yes, and we change numbers. It includes all regions, but we change numbers every year.

The CHAIRMAN: Are there any other questions?

Mr. FORBES: Would you mind explaining the duties of this group in front of us. You have a president?

The CHAIRMAN: Yes, sir.

Mr. FORBES: And you have a comptroller? Now just who runs what and who is the boss?

Mr. HIGNETT: Well the president of the corporation is the chairman of the board of directors, chief executive officer of the corporation, and he is responsible to the board for the conduct of the corporation's affairs? Mr. Lupien, our vice president is the alter ego of the president; it is provided in the act that in the absence of the president for any reason the vice president is the chief executive officer. So the president, with the vice president, is responsible for all the activities of the corporation. Now, the comptroller manages our financial affairs. May I just have a copy of the capital budget, Mr. Desbarats?

The capital budget for the year we are discussing, 1964, of the corporation provided for total commitments to be made in 1964 was \$439,031,524. This was the corporation's capital budget to carry out its lending program in the form of direct loans to homeowners and builders, loans for elderly persons' projects, public housing, university housing projects, municipal treatment projects, urban renewal. This was the corporation's budget for that year.

It is the responsibility of the comptroller to prepare the budget in December of each year for the following year. The budget is submitted to the Minister, the Hon. John R. Nicholson, and to the Minister of Finance. If the budget is acceptable to these two Ministers it is then submitted to the Governor in Council. After the Governor in Council approves it, it is tabled in the house. This represents, then, the corporation's authority to do business in the current year. We are not allowed to exceed this budget.

The funds, of course, are provided in the National Housing Act itself, in the various sections. You will recall some of them; section 22 authorizes the corporation to make direct loans up to a maximum amount, at the moment, of

\$3½ billion. It authorizes us to make loans to universities up to a maximum amount of \$200 million; for public housing purposes up to \$150 million; for sewage treatment programs up to \$200 million. Those are statutory authorities which must not be exceeded in total but the annual expenditures of the corporation are controlled by the Governor in Council approval of our capital budget. The capital budget reflects the government's policy in housing in that given year.

The CHAIRMAN: Mr. Hignett, on this particular point, I wonder if yourself or Mr. Desbarats could answer this question. You had a budget, you say, of roughly \$439 million in 1964. That was your budget. What did you actually spend? Were you under your budget?

Mr. HIGNETT: I should have said that the budget for 1964 was \$478 million.

The CHAIRMAN: That was the budget—\$478 million? How much did you actually spend?

Mr. HIGNETT: Actual commitments were \$439 million.

The CHAIRMAN: So you were under your budget by nearly \$40 million. Have you done this each year, in 1963 and 1962? Have you followed this pattern?

Mr. HIGNETT: Yes, this is a requirement.

Mr. FORBES: Let us assume you had \$200 million, as you said, for sewage treatment, and that was not all used, but there was a demand for more for national housing. Can you transfer funds from one department to the other?

Mr. HIGNETT: No, sir. Section 22 of the National Housing Act provides funds for direct lending to home owners. It also provides funds for loans to public housing agencies. It provides funds for elderly persons' housing. So when we are authorized to spend, as we were this year, \$350 million for individual loans, and \$11 million for elderly persons—this was the first year of the loans to public housing, so the budget was very low, \$261,000—it is possible within those narrow limits, under a single section of the act, to adjust from one to the other. But we cannot adjust from sewage treatment loans and university loans where there are individual limits set in the act beyond which we must not go. If our capital budget says we are authorized to lend \$40 million to universities, we cannot exceed that figure.

The CHAIRMAN: You gave us a figure of a budget overestimate of \$39 million in 1964; \$39 million is a lot of money, but in an operation the size of yours, do you think this is pretty close budgeting?

Mr. HIGNETT: In terms of the capital budget it is within 10 per cent. I would think it is.

Mr. NOBLE: Mr. Chairman, I would like to ask a question. I do not know whether this is proper or not, but I would like to ask Mr. Hignett whether he has complaints from areas which have been designated, of not having enough housing money available for house building in 1966?

Mr. HIGNETT: Nineteen sixty-six has been a difficult housing year. One of the difficulties of the capital market is that housing is very much the poor relation.

With the current interest rates for all forms of investment, the National Housing Act rate is not very competitive. The private investors in Canada are inclined to put their money—to use an idiom—“where the action is”. If you examine what has happened in Canada this year you will find that industrial development, commercial development and all aspects of the economy have advanced from 10 to 15 per cent, while housing is actually declining. In terms of investment it has only declined a little. In terms of starts, it has declined from 166,000 last year to, perhaps, 135,000 this year.

Part of the reason for this is that an N.H.A. borrower—or any borrower—for housing is very sensitive to interest rates. An interest rate of 8 per cent has a very considerable affect on his ability to pay. And so the demand is suppressed by high interest rates and, at the same time, the flow of funds into housing is reduced by the approved lenders' activity in diverting money to other sources. So this year the activity of the approved lenders has dropped from about 28,000 N.H.A. loans last year to about half this year, 14,000.

But more important, the conventional field, which usually accounts for about half the housing starts in Canada, has declined from an annual rate of 90,000 at the beginning of this year to a current rate of 45,000, about half. On the other hand, the government has authorized C.M.H.C. to make the same number of direct loans in 1966 as it made in 1965, which was 31,500 loans. So we are really the only lending agency in Canada whose performance in 1966 bears any similarity to 1965.

The availability of 31,500 loans directly from C.M.H.C. does not begin to meet the demand caused by the withdrawal of the approved lenders from both the N.H.A. and conventional fields. So there is a demand for housing at N.H.A. rates all over Canada, much stronger than the corporation can hope to supply through its direct lending program. This is one reason why, from all points of Canada, you read and hear about pressures for additional funds directly from C.M.H.C.

This is really the only avenue that has been open this year and the Corporation has been making loans in support of a winter house building program since the first of August. You may remember that the \$500 winter housing incentive was dropped, but the government agreed to place the corporation in funds to make the same number of loans that were made last year under the winter housing incentive program. We have made 21,000 loans in the last eleven weeks, but even this rate of lending does not meet the demand.

The CHAIRMAN: Mr. Tucker?

Mr. TUCKER: When you say, 166,000 houses were built in 1965, I presume you mean these were built with the assistance of Central Mortgage and Housing?

Mr. HIGNETT: No, sir. I think I can give you these figures. In 1965 there were 166,500 housing starts.

Mr. FORBES: How many of those were eligible for the winter works assistance program?

Mr. HIGNETT: During that year, 58,826 N.H.A. loans were made. So the N.H.A. accounted for about one third. Of that, C.M.H.C. did more than half, 32,286. The remainder were financed either by the conventional lenders or by individuals where no visible source of mortgage financing is evident, and it is

surprising what an even figure this is. There are about 25,000 houses built in Canada each year free of mortgages.

Mr. GENDRON: Have you any particular requirements for designating an area?

Mr. HIGNETT: No. We are mainly in the home owner field, and we have not ventured into the rental field which we regard as a commercial venture. We have taken the position that in so far as it is possible to do so, any credit-worthy Canadian, no matter where he lives, is entitled to an N.H.A. loan, and if he cannot get one from the approved lenders, then he should be able to get one from C.M.H.C. In most years it is possible to meet all of the demands of this kind, but this year, of course, the demand is so heavy that with the funds available we have not been able to do so.

Mr. TUCKER: What is the number of houses built without mortgage loans?

Mr. HIGNETT: About 25,000 a year.

Mr. TUCKER: When you say that, do you mean that the people who built the houses found their own money to do so?

Mr. HIGNETT: They borrowed money within the family or built the houses themselves, or financed them themselves, but there is no mortgage debt against them.

Mr. BIGG: I gather, then, with fewer housing starts being made, there is a bigger demand on the corporation, in spite of this drop in total houses. You people are absorbing more of the mortgage money.

Mr. HIGNETT: Oh, yes. The full weight of the demand is falling on the corporation at the moment.

Mr. FORBES: How many houses were constructed and eligible for the winter works incentive program, the \$500?

Mr. HIGNETT: In the 1964-65 program; that is the program that began in the autumn of 1964, 33,400 dwelling units qualified for the incentive payment and there was a total of 39,770 applications; so there were about 6,000 housing units in that winter season which failed to meet the requirements of the program. Of these houses, 6,200 were built by contract; 2,100 were built by day labour and 13,900—almost 20,000—were built by merchant builders in Canada building these houses for sale. Of the total, 97 per cent were for home ownership and 3 per cent were for rental. You may remember that in that program it was possible to build duplexes or fourplexes where the owner lived in one part, and 18,482 of these, or 65 per cent, were financed under the National Housing Act.

Mr. FORBES: Was this program only in effect for one year?

Mr. HIGNETT: No, it was in effect for three years, sir.

Mr. FORBES: Three years?

Mr. HIGNETT: Yes.

The CHAIRMAN: I understand, Mr. Hignett, the government has intimated that the amount of money which will be saved by paying the \$500 winter bonus should be made available as loans? Is that what you said?

Mr. HIGNETT: No, it amounts to much more than that, sir. The \$500 winter housing incentive bonus resulted in 1964 and 1965 in payments of \$16,700,000 while the funds required for the corporation to support its current present housing program is of the order of \$350 million. Of course, the same lending program was also available at the time the winter housing incentive program bonus was being paid.

Mr. LUPIEN: During the three years the program was in effect a total of 61,000 dwelling units of all types were built at an approximate cost of \$900 million.

The CHAIRMAN: Well, gentlemen, this is so very interesting we hate to break up the meeting. First of all, I want to thank you, Mr. Hignett and your staff, for coming before the Committee. It has been very enlightening to the Committee; we have learned a lot about the corporation and the financial statement and your operations. I would think that the point which we would bring to the Committee's attention for further study and whether we would make any recommendations would be something that does not concern you, as the act has to be changed. The question was asked this morning why is the Auditor General not the auditor and if he is not the auditor why would he not be a joint auditor in the corporation?

Secondly, members of parliament would like a little more information. As a matter of fact, in our 1964 report from this Committee to the house, the paragraph was included that the Committee also recommended the inclusion of supporting financial information of crown corporations and other public instrumentalities in the details of services so as to provide better information to the house with respect to the nature of the fiscal requirements of the corporations and other agencies requiring financing by parliamentary appropriations. This comes up again.

The other point, I think, was concerning securities. The Committee felt they would like to have a present day evaluation of securities attached to the financial statement so that they would give a little better picture.

I made note of another point which concerns a business consultant firm which you had look over the operations of your corporation in 1957. Next year will be ten years since you had one do this and it might be advisable to give a little thought to whether it is time for another one or not.

Those are a few observations.

Mr. FORBES: I have one more question. Is a member of parliament or a Senator eligible for a loan under Central Mortgage and Housing Corporation?

Mr. HIGNETT: Yes, indeed sir. Any Canadian is eligible and we have made loans to many members of parliament.

The CHAIRMAN: Would someone move that the documents be tabled as exhibits?

Mr. NOBLE: I move that the documents be tabled as exhibits.

Mr. TUCKER: I second the motion.

Motion agreed to.

The CHAIRMAN: The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

TUESDAY, NOVEMBER 8, 1966

Annual Reports of *National Harbours Board* 1963 and 1964 and
Long-Form Reports of the Auditor General thereon.

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. A. Stokes of the Auditor General's Office; *From the National Harbours Board*: Mr. H. A. Mann, Chairman; Mr. J. E. Lloyd, Member; and Mr. J. B. Phair, Chief Treasury Officer.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morrison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Prittie,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
 neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

REPORT TO THE HOUSE

THURSDAY, November 10, 1966.

The Standing Committee on Public Accounts has the honour to present its

NINTH REPORT.

The Committee recommends that it be empowered to appoint subcommittees, fix their quorum and refer to them any of the matters referred to the Committee; that any such subcommittee so appointed be given authority to send for persons, papers and records, examine witnesses, sit while the House is sitting, and to report from time to time to the Committee.

Respectfully submitted,

ALFRED D. HALES,
Chairman.

(Concurred in by the House on the same day)

MINUTES OF PROCEEDINGS

TUESDAY, November 8, 1966.
(35)

The Standing Committee on Public Accounts met this day at 10.02 a.m., the Chairman, Mr. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Flemming, Hales, Lefebvre, McLean, Noble, Prittie, Tardif, Thomas and Tucker (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Laroche, Matthews and Stokes of the Auditor General's office; *From the National Harbours Board:* Mr. H. A. Mann, Chairman; Mr. L. R. Talbot, Vice-Chairman, and Board officials, Messrs. Alton, Lloyd, Bryson, Stratton, Saint-Jean and Phair.

The Chairman asked for comments from members respecting the receiving of notices of Committee meetings on time.

On motion of Mr. Baldwin, seconded by Mr. Bigg,

Resolved,—That the Committee be empowered to appoint subcommittees, fix their quorum and refer to them any of the matters referred to the Committee; that any such subcommittee so appointed be given authority to send for persons, papers and records, examine witnesses, sit while the House is sitting, and to report from time to time to the Committee. (*To be presented to the House as its NINTH REPORT*)

Following discussion, the Committee agreed to request Central Mortgage and Housing Corporation to submit to the Committee the reports on the examination of the accounts and financial statements for the years ended December 31, 1963 and December 31, 1964 prepared by their auditors.

The Chairman introduced Mr. H. A. Mann, Chairman of the National Harbours Board, who introduced his associates.

Mr. Henderson, the Auditor General tabled a short explanation of the material in his long Form Reports on the examination of the accounts and financial statements of the National Harbours Board for the years ending December 31, 1963 and December 31, 1964. (*Exhibits XIV and XV*).

Mr. Mann, Chairman, gave a brief history of the foundation and activities of the National Harbours Board.

Mr. Mann and his associates were questioned. Mr. Henderson was also questioned.

At 11.12 a.m. questioning continuing the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 8, 1966.

The CHAIRMAN: Gentlemen, I see we have a quorum.

Mr. Baldwin was appointed chairman of a subcommittee dealing with the Cornwall land transactions and I think he has an observation to make at this time.

Mr. BALDWIN: Yes, Mr. Chairman. Under the direction of the committee we held two preliminary discussions and came to the conclusion that the situation was such that it warranted a further and more detailed study. This was the unanimous view of our subcommittee. In discussing it with the clerk, however, we have come to the conclusion that because we have to call witnesses from outside the government, we will, to all intents and purposes, be sitting as a subcommittee and will therefore require the same powers which were invoked in 1964, and therefore I am going to move a motion which will be seconded by Mr. Bigg that we seek authority that this committee be empowered to appoint subcommittees to fix the quorum of any such subcommittees and to refer to such subcommittees any of the matters referred to the committee; such subcommittee so appointed have power to send for persons, papers and records and to examine witnesses, to sit while the House is sitting, and to report from time to time to the committee. In other words, the subcommittee will have precisely the same powers as the committee, in order that we may properly discharge our responsibilities as a subcommittee. I so move.

The CHAIRMAN: In committee a motion of that nature does not need a seconder, as I understand it. All those in favour?

Mr. LEFEBVRE: Just a minute please, Mr. Chairman, before you take the vote. Would you explain this? In other words, the subcommittee will be able to make reports to the House directly without coming to this committee?

Mr. BALDWIN: No.

The CHAIRMAN: They are just asking to have the same powers as we have to call witnesses and get papers, and so on.

Mr. LEFEBVRE: But not to report directly to the House?

The CHAIRMAN: No, they must report to this committee.

Mr. LEFEBVRE: I thought that was included in the motion, that we report to the House from time to time.

Mr. BALDWIN: Report from time to time to the committee.

The CHAIRMAN: Any other discussion? Mr. Tardif?

Mr. TARDIF: Mr. Chairman, can we be informed what the problem is in Cornwall that requires special attention?

Mr. BALDWIN: This was discussed last year, Mr. Chairman. There is a parcel of land there which at one time had been expropriated by the Department of Transport, which was before the coming into existence of the Seaway Authority, and that expropriation was subsequently cancelled. The private corporation which owned the property constructed works upon this land and as a result, some five years later when the Seaway Authority came into existence, it was compelled to take possession of the land and pay a very large sum of money, which was substantially in excess of what it had offered at the time of the original expropriation.

Now, this will involve the calling of witnesses from the Department of Transport who had knowledge of the matter then, and also witnesses from the Seaway Authority at this time, to see whether or not the cancellation of the original expropriation was justified and under what circumstances it was brought about, and if there was in fact a loss to the taxpayers of Canada because of these proceedings.

Mr. TARDIF: I have no objections to the sub-committee, considering this, Mr. Chairman, but before spending time on it would it not be necessary to find out if the decision to build the Seaway was made before the expropriation was lifted or after? If it was made after, there is no reason. If it was made before, there might be a reason.

Mr. BALDWIN: Well, this is one of the matters to be considered. The indication is, Mr. Chairman, that the original expropriation was decided upon in view of the fact that the building of the Seaway was being contemplated and the land was apparently taken for that purpose. However, there is some doubt about it. There is a lot of correspondence and we want to find out what the facts are. Without this power there is some doubt as to our legal ability to deal with this as a subcommittee, and if we did not do it the result would be that the time of the main committee would be taken up in conducting this examination and calling these witnesses and calling for the papers.

The CHAIRMAN: Mr. Tardif, we had the St. Lawrence Seaway Authority people before us, you know, and we asked them a number of questions, and it evolved into such a complicated matter that we decided to form a subcommittee, and this subcommittee have looked into it and they now want to proceed further.

Mr. TARDIF: But that subcommittee has already been formed?

The CHAIRMAN: It is all outlined in the 1965 report of the Auditor General in paragraph 125 on page 79.

Mr. TARDIF: If someone refuses to serve on that subcommittee I would be glad to do so.

The CHAIRMAN: Mr. Baldwin, please take note.

Mr. BALDWIN: I would like to have you anyway, Mr. Tardif. The benefit of your advice is always useful.

The CHAIRMAN: Is there any further discussion on this motion?

Motion agreed to.

The CHAIRMAN: Now, gentlemen, unfortunately we have to give up this room this morning at eleven o'clock. It is booked for another committee meet-

ing. We will try to make as much progress as we can. If the committee wishes to sit this afternoon we will decide that later on.

Mr. BALDWIN: May I bring one more matter to your attention? I was not able to be present at your last meeting but I looked through the papers which were filed. Would it be possible for us to have the long form report of the Auditor General in this connection, which is so very useful in supplementing the other information. Would that be possible?

The CHAIRMAN: Is there a long form report available, do you know?

Mr. HENDERSON: It would not be from me, Mr. Chairman, because I am not the auditor for Central Mortgage and Housing, but the auditors presumably issue something of that nature. I think mention was made on the subject. I was not present, so I am not too well posted on this.

Mr. BALDWIN: Something comparable to the one we have now.

The CHAIRMAN: All right, Mr. Baldwin, we will endeavour to get a long form report for all members of the committee.

Now, we have with us this morning the National Harbours Board. As your Chairman I welcome them. I understand it is the first time they have ever appeared before the Standing Committee on Public Accounts. We are pleased to have them with us. Mr. H. A. Mann is their chairman and I will ask Mr. Mann to introduce his officials so we will know who they are.

Mr. H. A. MANN (*Chairman, National Harbours Board*): Mr. Chairman, I have with me this morning my colleagues. On my immediate left is Mr. L. R. Talbot, Vice-Chairman of the board; Mr. Ernest Alton, member of the board; Mr. J. Lloyd, member of the board and Mr. Phair, our chief treasury officer. On this side is Mr. Stratton, our chief engineer; Mr. Bryson, our senior adviser and Mr. Saint-Jean, our secretary.

The CHAIRMAN: Thank you very much. I welcome you, gentlemen, to our Committee.

Mr. Henderson, as auditor of the National Harbours Commission would you care to give as a brief introduction. Then we will ask Mr. Mann to give us a concise report of the operations and their functions, and then we will throw the meeting open for questions.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Thank you, Mr. Chairman. I will take about five minutes to sketch in how this fits in terms of the agenda and my 1964 and 1965 reports, which you have been examining.

A week ago today you were given copies in both languages of the long form reports for each of those two years which I issue, and which complement my statutory certificates. These were distributed in order that you might have a chance to go over them and prepare some questions, so I do not propose to say any more in these few remarks than merely summarize the highlights before Mr. Mann speaks. He will of course, fill in the total picture for you.

I might mention first that the fiscal end of the board coincides with the calendar year. That is why you have reports before you of December 31, 1963 and December 31, 1964, because these come into the subsequent government year end reports, which is March 31 each year. So that the 1963 report has come into

the 1964 report and 1964 into 1965. These remarks will cover both years at once and I will try to bring you briefly up to date.

First of all, I point out that the proprietary equity, that is to say, the investment of Canada in this board, including the loans and advances that are made to the board, aggregate \$320 million, of which interest in arrears alone totals over \$86 million. The accumulated deficit of the board today amounts to something rather more than \$82 million. I have observed in our reports here, and I have repeatedly stated over the last several years, that there is little prospect of this board being in a position to meet its principal and interest obligations and I have recommended the reconstitution of the financial structure of the board.

However, I should tell the committee that no action has been taken in this direction by the executive, to my knowledge, up to the present although I do know that Mr. Mann and his associates would like very much to initiate such discussions and they are hoping that they will take place shortly.

The current assets of the board include a sum of \$273,000 due from the Quebec Natural Gas Corporation for rental charges for the easement of a pipe line under the Jacques Cartier bridge. This item is an accumulation of charges since the granting of authority for the installation of the pipe line in 1959. In other words, it has not yet been paid. You might be interested in looking into that one.

The Jacques Cartier bridge, until revocation of tolls on June 1, 1962, was operated under a tripartite agreement which required the city of Montreal and the province of Quebec to pay to the board one-third of any annual deficit arising from the operation of the bridge to a maximum of \$150,000 each. Since 1944, or 22 years ago, the province of Quebec has refused to make the required contributions and at the end of 1949 it owed the board \$744,000. Since that time the bridge has not experienced any operating deficit but the amount of \$744,000 still remains due to the board from the province. Each year in our reports we have noted that settlement of the claim and the transfer of the bridge to the province is the subject of negotiation between the board and the province, but no action has been taken on this matter yet. This is something on which you might wish to question Mr. Mann.

There has been repeated reference in our reports to the dispute between the board and the Canadian Pacific Railway regarding ownership of certain areas at Coal Harbour, Vancouver. Title to the areas involved in this dispute go back as far as 1880. I understand, however, some settlement has recently been reached and I am sure Mr. Mann is in a position to advise you on the up to date information on that one.

Summaries of the board's statements of income and expenses are included in our reports. Very briefly, the most significant thing, I think, is that the net loss from operations of the harbours and elevators dropped from \$3.4 million in 1962 to \$2.3 million in 1963 and down to \$981,000 in 1964. I think it is a compliment to our witnesses present that in 1965 it turned into a profit of \$681,000. I think that is the first profit for a long time.

The decrease in 1963 was mainly the result of increased revenue due to the movement of grain arising from the unprecedented sales of wheat to Russia that year. The drop in the net loss in 1964 was attributed to a general increase in tariff rates which, as I have indicated, continued right through 1965.

The revocation of tolls in respect of motor vehicles over the Jacques Cartier bridge is reflected in the losses experienced from the operations of the two bridges, the Jacques Cartier and Champlain. In 1962 the net loss was \$179,000. In 1963 it went over \$2 million and in 1964 it seems to have levelled off at around \$2,400,000.

In conclusion, there are three items of expenditure in 1964 to which I would direct your attention. First of all, the board paid \$279,000 as a settlement of a claim by the lessor of toll collecting equipment which had been leased for a period of five years for use on the Jacques Cartier Bridge. The equipment was removed nine months after installation as a consequence of the renovation of tolls in respect of this bridge.

Secondly, *ex gratia* payments totalling \$32,000 were made to owners of property adjacent to the Champlain bridge due to land devaluation resulting from the construction of the bridge.

Thirdly, there is an item of approximately \$20,000 paid to workers for "dip time". I mentioned this to you when the CBC was before us, and we were dealing with a similar non-productive expenditure at that time. If we get around to it, I am sure Mr. Mann and his associates can explain the nature of "dip time" better than I can, although it is covered in my report.

That, Mr. Chairman, summarizes all that I have to say on the subject at the moment.

The CHAIRMAN: Thank you, Mr. Henderson. Mr. Mann, would you give us a résumé of your operations?

Mr. H. A. MANN: Thank you, Mr. Chairman. I hope we can be as concise as Mr. Henderson in covering the new comments we have. I would very much like to give you a brief outline of our board because this, as the Chairman has mentioned, is the first time since the creation of the board that we have had the privilege of appearing before the Public Accounts Committee.

The National Harbours Board is a Crown corporation which falls into Schedule C of the Financial Administration Act. As such, it is an agent of Her Majesty in right of Canada, and if I may quote the wording of the act in that respect, "is responsible for the management of trading or service operations on a quasi-commercial basis". We have been in existence since October 1936, when the National Harbours Board Act was proclaimed. At that time the Board took over from the local harbour commissions the ports of Halifax, Saint John, Chicoutimi, Quebec, Trois Rivières, Montreal and Vancouver. Shortly after that the port of Churchill and the government elevators at Prescott and Port Colborne were added to the list. In 1965 we assumed jurisdiction over St. John's in Newfoundland and, when construction is completed, the new harbour of Belledune in northern New Brunswick will come under the jurisdiction and administration of the National Harbours Board.

We are a board of four, consisting of a chairman, a vice chairman and two members who hold office during good behaviour for ten years. Those of us who have behaved well are here today. I have had the pleasure of introducing our associates earlier. It might be useful, Mr. Chairman, if we gave the Committee a very brief outline of our operations.

Basically, our board administers harbours and this would normally be understood to mean wharves and transit sheds but it does, of course, go beyond that. There are facilities which are ancillary to port operations and we therefore find ourselves operating, as an example, three cold storage warehouses, assorted stationary and floating cranes, several harbour craft, over 80 miles of harbour switching railway lines, and so on.

We also have under our administration 15 grain elevators and, as Mr. Henderson has referred to already, two bridges across the St. Lawrence river at Montreal. The various establishments which we administer are under the charge of a port manager or an elevator manager in the case of Prescott and Port Colborne. These managers report directly to the board. They are assisted by local staff. At head office, here in Ottawa, the board is supported by various functional branches such as engineering, legal, personnel, traffic development, the secretariat and treasury. The treasury function is performed for us by officers of the Comptroller of the Treasury.

We issue tariffs which contain charges for the services we provide. Basically, the charges on port users fall into two categories: those which are levied against ships, and those which are levied against cargoes. There are, of course, also various other charges such as those for the use of the railway services, electricity and water, rentals for real estate, charges for the use of various facilities and grain elevator charges.

The board, subject to the approval of the Governor in council and within the limits dictated by commercial considerations, has a measure of control over all charges except those for the use of its grain elevators. In that case, the maximum rates which can be charged are set by the Board of Grain Commissioners of Canada.

The cargo volume, if I may just briefly outline it, handled at the board's harbours, has steadily grown over the years. In 1937, which was the first full year of the board's operation, our ports handled a little over 32 million tons of cargo. In 1963, that tonnage had reached a total of a little over 66 million tons; went to nearly 71½ million in 1964, and established an all time record of 73,313,834 tons in 1965. Now, quite naturally we have had to put ourselves in the position where we could handle these larger volumes of cargo and in addition we have had to adjust ourselves, and must continue to do so, to changes in the technology which we encounter. This roughly, then, sir, is an outline of the board and its functions.

The committee has before it the Auditor General's report and we are ready and more than willing to answer any of the questions you may have.

The CHAIRMAN: Thank you, Mr. Mann; very well done. Now, gentlemen, we will take any specific questions you may want to ask, if not we will follow the procedure of the three observations made by the Auditor General and discuss those three but first let us throw the meeting open and we may have some specific questions.

Mr. BALDWIN: I would like to ask Mr. Mann a question which I think was raised by the Auditor General. It is the question of the interest and arrears on loans and advances. Without in any way questioning the necessity for these amounts to be paid in order that the board should operate competently, I think

we as a Committee have been concerned for a number of years with the fact that there are many corporations where this practice obtains, the N.C.C., the Canadian Broadcasting Corporation and others where, in our opinion, I think, at least the opinion of some of us, loans have been made to corporations which have no real prospect of being able to repay them, and consequently from the viewpoint of competent auditing and accounting the books of the nation do not accurately show the situation which is in existence. I would like to ask Mr. Mann, having in mind the amount of these loans and advances, under the interest, whether he sees any likelihood in the future that there would be such a measure of repayment of these loans and advances as ultimately to pare them down. Are they loans in advance which heally represent a real asset so far as the national balance sheet is concerned?

Mr. MANN: I am very glad this is coming up. This of course, is giving us some measure of concern. We have noted with very great interest and very great involvement the observations which Mr. Henderson has made over the years on this matter. Since we always pay very close attention to what Mr. Henderson says, we initiated discussions with the Department of Finance in 1964 in which we developed, in a very preliminary way, some of the ideas which we might have. Now, rather than attempting myself to answer questions which require more technical knowledge than I have, we are very well served by having on our board as a member, Mr. Lloyd, who is a chartered accountant by profession and who we had asked to look into this matter in particular and perhaps I might ask Mr. Lloyd to make some comments.

Mr. J. E. LLOYD (*National Harbours Board*): Mr. Chairman and gentlemen. There was a period of time naturally when I first joined the board which required me to get oriented to the matters associated with this particular problem, and as you can appreciate, with so many complexities, it was wise and prudent to examine all the aspects of the operations because practically every one of them involved income and expenditures, loans and advances. It was in July of 1966 that it became apparent to my colleagues and myself that the heavy impact of a new policy commenced in 1965, namely, grants in lieu of municipal taxes, would extensively and substantially increase the expenditure obligations of the board. I mention that because any plan of restructuring the balance sheet of the capital of the harbours board inevitably will depend upon what it earns. It cannot meet debt service charges except from its earnings; that is basic to any solution that you might undertake.

Secondly, there is a possibility, in view of government policy which has been announced recently of still further extension of the grants policy because at the present it is at the rate of 50 per cent; in time it may very well be more than that level to reach parity with other government agencies, crown corporations and departments that are now paying as much as 100 per cent in real property taxes.

The CHAIRMAN: Excuse me, Mr. Lloyd; you are paying 50 per cent now?

Mr. LLOYD: Fifty per cent of the grant calculated under the provisions of the Municipal Grants Act.

Mr. BIGG: What rates of interest are we paying, generally on these big loans?

Mr. LLOYD: The rates of interest will vary and they are governed by the rate of interest effective at the time the certificates of indebtedness to the debt were obtained, and they range from a low of 2½ up to 6 per cent.

Mr. BIGG: Does this have a bearing on whether or not it is in a state to recapitalize?

Mr. LLOYD: Oh, yes, it certainly does have a bearing. However, Mr. Baldwin put this specific question, "Is there any prospect of recovering all of these loans?" The answer to that is found in the Department of Finance report and you will find loans to the National Harbours Board under loans and advances to the various Crown corporations. You will find a very substantial reduction of the amounts carried on the books of the National Harbours Board as a liability compared with the amount now carried. This, I think, answers the question in the negative. There is no prospect of recovering all of those loans and advances and interest direct. That will vary, of course, from port to port. In some ports the answer will be yes because of a variety of conditions, and in some other ports the answer is definitely no.

It was obvious that one should make a projection of future operating costs, the impact of the grants, and a number of other conditions. In July of 1966 I had an informal talk about this with Mr. Bryce and he instructed me to communicate with the Comptroller of the Treasury. I indicated to Mr. Bryce that before I did that I would like to get the result of field audits being made by the grants division, which would give me an indication in more specific terms of the extent of the grants policy. For your information, they range from a low of \$4,000 in one port to \$1 million in another, and double that if you went to a hundred per cent. They could range then from \$8,000 at Chicoutimi up to, in round figures, \$2 million in Montreal. These are very substantial and very significant figures which would have an impact on the net earnings, and you must capitalize on the net earnings to arrive at the capability of each port to service the debt obligations. That would be the basic formula I think the board would consider, and anybody else would consider, when you are approaching the realism which the Auditor General has suggested in his recommendation.

Without question my colleagues on the board agree that restructuring is necessary. We have also identified the criteria that it must first of all serve our own financial management needs in a more improved fashion. It must enable the Treasury department to perform its function in the management of the loans and debt obligations of the nation.

Finally, and perhaps most important to this Committee, to simplify the annual financial statements so that the proper information is readily available for you to discharge your responsibility.

Having said that, Mr. Chairman, I am completely satisfied that with the guidelines in our possession from the Department of Finance and the study which we have given to this matter, there is no reason why the board could not have as a centennial project the restructuring of the National Harbours Board in 1967, effective the first of January 1968. I pick those times because the 1967 budget has been submitted within the framework of the present financial management structure.

The CHAIRMAN: Thank you, Mr. Lloyd. Does that answer your question, Mr. Baldwin?

Mr. BALDWIN: I think so. Might I sum it up by saying, with respect to one aspect of it, that you would agree, I think, Mr. Lloyd, that it is quite unrealistic for the government books of account to carry this as a debt with any prospect of collecting. In other words, if you were a private corporation you would not want to pay many cents on the dollar for this debt. This is correct, is it not?

Mr. LLOYD: This is true.

The CHAIRMAN: Mr. McLean and then Mr. Bigg.

Mr. McLEAN (*Charlotte*): I would like to ask the Auditor General if this debt of \$80 odd million has interest charged by the government on it. Does the government show this \$80 odd million as an asset?

Mr. STOKES: The amount of the interest on arrears is shown by the board as an amount due to the government but no amount is recorded by the government until payment is received.

Mr. McLEAN (*Charlotte*): The \$80 million is treated as an asset. Then the interest is added on the interest every year.

Mr. LLOYD: Mr. Chairman, may I suggest to the Auditor General, because I have been living so closely with this matter, that in revaluing a loan in the accounts of Canada, as distinct from the board, it has had substantial reduction. For example, in one port you will find that the total assets are carried on the government accounts at \$1, along with two or three others. Therefore, no account is carried with respect to interest arrears. In one port in particular there may be a portion of the interest arrears carried because they have been servicing their debt almost up to within a year or two of the arrears.

Mr. McLEAN (*Charlotte*): There must be interest charged somewhere along the line on that total of \$80 million if it is an interest-bearing loan.

Mr. HENDERSON: I do not believe that interest is charged on the interest, Mr. McLean, but the interest is charged in the normal way and it is expected to be paid, but if they do not have the means with which to pay it it gets deferred.

Mr. McLEAN (*Charlotte*): Is it written off? That is what I am getting at.

Mr. HENDERSON: No, they keep it there just like the St. Lawrence Seaway. You had this problem on the St. Lawrence Seaway. It piles up.

Mr. McLEAN (*Charlotte*): Well then, the interest keeps piling up every year. The \$80 million must be getting bigger all the time.

Mr. HENDERSON: It was \$86 million at March 31, 1966. I gave you a figure of \$82 million, which was at the end of 1964.

Mr. McLEAN (*Charlotte*): So if something is not done about it it will grow every year.

Mr. HENDERSON: This is just aggravating the problem, you are perfectly right, it is making it worse.

Mr. McLEAN (*Charlotte*): Another thing I was going to ask about is the \$744,000 due the board. Does the board carry that as an asset?

Mr. HENDERSON: Yes, it continues to carry it as an asset, Mr. McLean.

Mr. McLEAN (*Charlotte*): They would charge interest on that?

Mr. HENDERSON: I think not, but I would like to ask Mr. Mann to speak to that.

Mr. MANN: This involves, unfortunately, a jurisdictional problem. This is an amount due us from the province of Quebec. It arises out of a tripartite agreement on the Jacques Cartier Bridge, which Mr. Henderson mentioned I believe, under which the city of Montreal and the province of Quebec undertook to cover, along with the federal government, any deficit on the Jacques Cartier bridge. There was a deficit debt. By court judgment we were able to obtain the debt payment from the city of Montreal but in the case of the province of Quebec, because we are dealing with a province, we must get the consent of the province, we must get a provincial fiat to collect this debt through a court order. So far, Mr. McLean, we have not been successful in getting the province of Quebec to agree to be taken to court on the matter, and this is still outstanding.

Mr. TUCKER: On what grounds does it refuse to pay?

Mr. MANN: There have never been any grounds given to us.

The CHAIRMAN: Mr. McLean wants to further his question, I believe.

Mr. McLEAN (*Charlotte*): Is this \$744,000 an interest free debt to the province of Quebec? You are not charging interest on this.

Mr. MANN: Under the court judgment I think an interest rate of 5 per cent was awarded. I do not know whether we actually charge interest. I think we are carrying that.

Mr. McLEAN (*Charlotte*): Does this \$744,000 grow or is it stationary?

Mr. MANN: It is stationary.

Mr. McLEAN (*Charlotte*): The interest is not added?

Mr. MANN: There is no interest.

The CHAIRMAN: Mr. Stokes, do you want to answer that?

Mr. STOKES: The interest is not added. At one time we went through an exercise of calculating the accumulative interest on it. It was in excess of a million dollars if it was booked, but it is not booked.

Mr. NOBLE: How long has this account been outstanding?

Mr. MANN: Since the forties, sir. It has been outstanding since the end of 1943.

The CHAIRMAN: Just along this line, do you charge interest on other accounts outside of this?

Mr. MANN: Yes, we do.

The CHAIRMAN: If they are overdue you charge. It is only in the provincial ones that you are having that difficulty.

Mr. Bigg and then Mr. Tucker.

Mr. BIGG: As I understand it, then, the total debt of the National Harbours Board owing to the government is a matter of internal bookkeeping? It is not a big debt that we are paying in New York at an exorbitant rate, or anything like that?

Mr. HENDERSON: Oh, no. They are loans from the government to a crown corporation.

Mr. BIGG: Then they are charging the crown corporation interest as if it were a private concern?

Mr. HENDERSON: That is right. They handle it in the same way that they handle the loans to their other agencies.

The CHAIRMAN: The same as the CNR, I suppose.

Mr. HENDERSON: The CNR and some of the others, yes.

The CHAIRMAN: Anything further, Mr. Bigg?

Mr. BIGG: No, thank you.

Mr. TUCKER: Two of my questions were asked by Dr. McLean and the other one by Mr. Noble, but I have another one for Mr. Mann. He made reference to three cold storage warehouses in operation. Would you mind stating where these are?

Mr. MANN: These are in operation in Halifax, Quebec and Montreal, and they were part of the assets which we acquired from the original harbour commissions. We have not built cold storage warehouses since, Mr. Tucker, and I would like to suggest to you that we do not want to either.

Mr. TUCKER: That is why I asked. What about the fifteen grain elevators? Where are they located?

Mr. MANN: They are located at Vancouver, Churchill, Prescott, Port Colborne, Montreal, Quebec, Halifax and Saint John.

Mr. TUCKER: Saint John?

Mr. MANN: Saint John, New Brunswick.

Mr. TUCKER: You made reference to harbour development in St. John's. Would you mind telling me the cost of the construction of the harbour development?

Mr. MANN: The harbour was, as you know, Mr. Tucker, reconstructed by the Department of Public Works. We took it over after it was reconstructed, and I believe it was what, \$12 million? We have the figure in the annual report.

Mr. TUCKER: What year?

Mr. MANN: It was eleven million four hundred odd thousand dollars in 1965.

Mr. TUCKER: How many years has it been in operation?

Mr. MANN: We took it over on January 1, 1965, Mr. Tucker.

Mr. TUCKER: What is the tonnage handled there?

Mr. MANN: I have the figures here if you will bear with me. In 1965 we handled 466,293 tons of cargo through the port of Saint John.

Mr. TUCKER: What was the revenue?

Mr. MANN: The operating income was \$247,574 in 1965.

Mr. TUCKER: Thank you.

Mr. BALDWIN: Mr. Chairman, I wonder if Mr. Mann would turn his attention to the Jacques Cartier bridge? I have some interest in that. I sat on the committee when we were discussing the interesting question of the tolls.

The CHAIRMAN: Mr. Baldwin, I wonder while we are on finance whether you have any other questions on this subject? If not, I have one or two.

Mr. BALDWIN: All right, I will delay my question.

The CHAIRMAN: Do you do your financing and banking through a chartered bank or through the Bank of Canada, the Receiver General?

Mr. MANN: The Bank of Canada, Receiver General.

The CHAIRMAN: Through the Receiver General?

Mr. MANN: That is right.

The CHAIRMAN: This seems rather strange. I think other corporations we have had here use their own banking system and their own chartered bank. Have you any reason for using this system?

Mr. MANN: I think our act definitely provides for that in one of the provisions.

The CHAIRMAN: All that accounting and banking goes through the comptroller's section of the Receiver General?

Mr. MANN: That is correct.

The CHAIRMAN: Would you not much prefer to operate your own banking account, have it in your own office in your own building, and do it as any other corporation or business would?

Mr. LLOYD: Mr. Chairman, from the studies which I have made the procedure governing control of the funds of the board are satisfactory. We are not in the same category as other cases you recited, and it is my feeling that no change is necessary in the case of the National Harbours Board if you bear in mind its particular statute, its particular powers and its particular functions.

I think the present system, from the point of view of making use of any surplus funds and cash funds, within the framework of Treasury Board operation, is satisfactory providing we restructure the balance sheet and change our method of applying for borrowed money or for grant money for our purposes.

The CHAIRMAN: As a professional accountant would you not think you could operate more efficiently with your own corporate banking system rather than going through the Receiver General?

Mr. LLOYD: No. I can only express my personal opinion from what I have seen and I would say it is not so in this particular case.

Mr. FLEMMING: I would like to ask Mr. Mann, relative to the net revenue of each port, is there a breakdown of each port and does the port of Saint John show a surplus at the moment?

Mr. MANN: Mr. Flemming, under our act we are required to keep separate accounts for each port and these are, of course, incorporated in our annual report. They are found in the annual reports which we issue from time to time.

The port of Saint John, which you specifically enquired about, Mr. Flemming, is in a deficit position.

The CHAIRMAN: Are there any other questions on the financial picture?

Mr. PRITTIE: The Auditor General made a reference to the continuing problem with the CPR at Coal Harbour at Vancouver. Has this been totally regulated now with the agreement of last summer or are there still some points in conflict?

Mr. MANN: We are at this stage, Mr. Prittie; we have signed a memorandum of agreement with Canadian Pacific which resolves the dispute. What is now being done is the final wording of the agreement for final signature, and this is dependent upon the development of exact plans for the areas concerned, so that we know exactly what is to go to whom. This is under way now and there are no difficulties in principle. These are merely technical matters which are required for the legal transfer of the property.

The CHAIRMAN: Mr. McLean and then Mr. Flemming.

Mr. McLEAN (*Charlotte*): You said that last year you had an overall surplus. Is that right? You went from a deficit to a surplus?

Mr. MANN: That is right.

Mr. McLEAN (*Charlotte*): In that over-all surplus did you pay the interest? Was an allowance made for that on the \$86 million?

Mr. MANN: We paid some interest. Would you like to answer that, Mr. Phair?

The CHAIRMAN: Mr. Phair, the comptroller.

Mr. J. B. PHAIR (*Chief Treasury Officer, National Harbours Board*): Interest charges were set up on the outstanding debt, but certain interest payments were actually made.

Mr. McLEAN (*Charlotte*): The over-all surplus did not include all the interest on the \$80 million, so you would not really be in a surplus position.

Mr. PHAIR: Yes, it was included.

Mr. McLEAN (*Charlotte*): All of it? On the \$80 million?

Mr. PHAIR: Yes.

Mr. LLOYD: Mr. Chairman, if I may carry on from Mr. Phair's observation for Mr. McLean, the accounts of the board are on an accrual basis, and all interest liability is accrued.

Mr. McLEAN (*Charlotte*): But I am talking about the—

The CHAIRMAN: Just a moment. Finish, Mr. Lloyd, and then we will have the Auditor General's department.

Mr. LLOYD: As I understood Mr. McLean's question he wanted to get an understanding of how much was accrued and how much was paid. In determining this net loss the accounts are on an accrual basis, which means that every

amount of accrued liability is set up in this statement, which shows a small profit for 1965 and a loss in the previous year 1964. Keep in mind that each port has separate accounts and each port has a separate ability to earn the cash to pay interest. You will find some ports with 16 years of interest in arrears. You will find one with the interest in arrears equal to the amount of the capital and you will find two ports with no interest arrears. You will find grain elevator ports with no loans and no interest.

Mr. McLEAN (*Charlotte*): As I understand it you have \$80 million outstanding. What was the capital advance in the first place?

Mr. HENDERSON: Could I put this into focus for Mr. McLean?

The CHAIRMAN: Yes. Mr. Henderson.

Mr. HENDERSON: I am looking at their balance sheet in the red book, and their loans and advances—and I am taking this up to the end of 1964—were \$320 million. That is what they owed the government of Canada. There was also interest on arrears on loans and advances of over \$86 million. Interest is accrued on the \$320 million but not on the \$86 million. In other words, there is no interest on the interest.

Mr. McLEAN (*Charlotte*): It is accrued but is it paid?

Mr. HENDERSON: No.

The CHAIRMAN: Then the question is how can you show a surplus? Is that right, Mr. McLean?

Mr. HENDERSON: Of the \$320 million on the books of Canada—and this point came up earlier—the government some years ago wrote off something rather less than half of that to net debt. The National Harbours Board carries it as a liability but in the assets of Canada they have already written off \$120 million of it. This is quite a complicated picture to get into. As they keep their accounts on an accrual basis they make provision for the interest, and that is what appears in calculating their income. Now, it so happened in 1965 they did much better than they had ever done before in the area of operating income. They were \$4 million better off. It went from \$30 million to \$34 million. Expenses only went up \$2 million and they were able to pay their interest of \$9½ million, as well as providing for replacement of capital assets, and they came out with a net profit of \$681,000.

Mr. McLEAN (*Charlotte*): The government advanced them \$320 million and they wrote off \$120 million, therefore there would still be \$200 million, but they are accruing interest on \$320 million.

Mr. HENDERSON: Could Mr. Stokes speak to this, please.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): Mr. Henderson said that they had paid \$9 million. You enter an area of accounting here. There was a provision of \$9 million which is added to the accrued interest, but they would only pay in cash something less than that to the government.

Mr. HENDERSON: Mr. McLean, I stand corrected on this. The \$9.5 million, if I understand correctly, would be on the gross amount due.

Mr. LLOYD: I think you are partly right on this. On the government books I do not know what you have taken into account. For instance, it is quite

conceivable in one port—which only has one year's interest—that the Department of Finance might feel, because of the volume of cash flow at that port, that that interest is collectable and treat it as a collectable item. I do not know. In so far as the National Harbours Board is concerned, we must accrue all interest on all certificates of indebtedness until such time as we restructure the balance sheet, which we want to do. Then we can write them down.

Mr. McLEAN (*Charlotte*): Are you accruing interest on \$320 million?

Mr. LLOYD: Yes.

Mr. McLEAN (*Charlotte*): The government has written off \$120 million?

Mr. LLOYD: Yes.

Mr. HENDERSON: And charged it to net debt.

Mr. McLEAN (*Charlotte*): I think Mr. Lloyd and our Auditor General had better get together and set up a set of books for the National Harbours Board.

The CHAIRMAN: Mr. Flemming, could we have your question now?

Mr. FLEMMING: My question has already been asked.

Mr. BIGG: What I am trying to get at is are we not putting up a hidden subsidy to shipping? We are writing off debts, and so forth, and it seems to me that if we are writing off a debt of \$120 million, this appears to be—

Mr. HENDERSON: That would be a question to address to Mr. Mann.

The CHAIRMAN: Direct your question to Mr. Mann.

Mr. BIGG: There apparently are three or four separate sets of books being kept. I will then ask Mr. Mann, if this is not a type of subsidy to shipping? If you are running in the red, who is picking up the tab? It seems to me that the grain people are paying their way very handsomely.

Mr. MANN: I hate to differ with you on that particular aspect—

Mr. BIGG: Maybe I am wrong, but I would like to get this cleared up.

Mr. MANN: Our grain operations are not among those which we consider as giving a handsome return or any reasonable return on investment. I do not know whether I would want to put it as bluntly as you did, Mr. Bigg, that this amounts to a subsidy to shipping. We are working in our field in a fairly competitive environment and we must have regard to what other ports charge and in Canada, as you know, there is a tremendous competitive pull towards United States ports. On the east coast you have it in New York and on the west coast you have it in Seattle and Portland; therefore a certain amount of basic investment will have to be done by us if we are to attract shipping to our ports.

We do try—and this I can give you as a matter of philosophy—to get commercial returns from our users. We do not always succeed but this is generally what we try to do. We try to set our rates accordingly.

Mr. BIGG: I have no particular quarrel with that, I just want to know what we are spending our money on, that is all. You may not like the words “subsidy shipping”, but you could say a subsidy to proper harbour facilities in order to attract trade.

Mr. MANN: Yes, it certainly is an assistance to the commerce of this country.

Mr. BIGG: Then we know what predicament we are in.

Mr. MANN: That is right.

The CHAIRMAN: Mr. Noble is next and then Mr. McLean.

Mr. NOBLE: Mr. Chairman, I would like to ask Mr. Mann this question. Is it the duty of this board to make recommendations as to how these harbours which continually show a deficit might improve their financial position?

Mr. MANN: Yes, we consider this among our functions, and we try to do just that. We do that by controlling our expenses, by trying to increase the efficiency of harbour utilization, by assessment of charges and by trying to do something about our obligations to former debts.

Mr. NOBLE: Mr. Mann, have you had any good results from these representations you have made?

Mr. MANN: I think we have had some results in some of these fields. We are hoping to get results in all of them. We have had results, I should think, and it is not for us to judge but for our users and the public to judge. We have had results in increasing the efficiency of our harbours. Many of us have seen harbours in other parts of the world and I do not think this country needs to be ashamed of the harbours that we administer.

The CHAIRMAN: Mr. Mann, I do not like to interject, but we have to keep this meeting on an even keel. I have before me a report of the secretary in Churchill. I take it to be the secretary of a chamber of commerce in Churchill and he says they received good support from the businessmen and individuals. However, the operations at Churchill were enough to break anyone's heart. It reminded him of the old pioneering days when settlers had to plough with a walking plough with a horse, a cow and a mule driving the plough. He also stated that all the grain had to be cleaned and this had to be done over two or three times, and they could only handle 300,000 bushels in 14 hours, and that it is a very antiquated operation in Churchill.

Mr. MANN: I suppose anyone is entitled to one's judgment, but I think if one looks at the operation in Churchill and sees that a 5 million bushel elevator handled 24 million bushels last year, I should think that in terms of the grain trade this is not a bad turnover, and certainly the private sector would be very pleased if it achieved results of that kind. I would not, on behalf of this board, agree with the accusation that this is a horse and mule operation. The grain is being cleaned for one reason only; it is being sent up there to be cleaned and we have nothing to do but to clean it. For that purpose we have installed modern cleaners and we are continually changing and adding to those cleaners and keeping them in good repair. We are into an electrical and mechanical rehabilitation of the elevator, which after all is several years old now, therefore I do not think I would quite agree with the enthusiastic description.

The CHAIRMAN: I will give it to you. It was passed on to me and I will let you read it.

Mr. McLEAN (*Charlotte*): I would like to know if the bridges in Quebec are toll-free at the present time?

Mr. MANN: You mean the bridges at Montreal?

Mr. McLEAN (*Charlotte*): Yes.

Mr. MANN: The situation at the present time is as follows. The Jacques Cartier bridge, which is under our administration, is toll-free and has been since 1962. The tolls were taken off Victoria bridge at the same time. This bridge is administered by the Canadian National Railways. The Champlain bridge, which is the newest, is under toll, and the Mercier bridge, which I think is a provincial bridge, is toll-free. That is roughly the situation at this time.

The CHAIRMAN: Mr. Baldwin, I think we will come to your question. The word "bridges" was mentioned and if the Committee want to follow it, it is on page 8 of the white paper of 1964. So, Mr. Baldwin you may proceed and do not feel that we have to get out at eleven o'clock sharp. The clerk has told us that if there is a quorum we will be advised. So we will continue to sit until the next committee has their quorum.

Mr. BALDWIN: Mr. Chairman, I am glad that Mr. McLean re-opened the matter. I want to deal with the Jacques Cartier bridge and the note with regard to it. This is a problem, of course, which the National Harbours Board inherited. The board did not build this bridge, it was built pursuant to this tripartite agreement. The tripartite agreement, if I recall correctly, provided for the means of fixing the toll and for the cost of repayment. At the time you took it over the determination of the toll had been fixed and it was being collected by manual methods. There was a famous situation in 1959 and 1960, I think, as a result of which the manual collective means were replaced by a mechanical device. I see that the mechanical toll collectors were only in operation for nine months. But just to satisfy my curiosity, and I think it is a logical question, if this method of collecting had been carried on, if there had not been the decision to revoke all the tolls, have you any indication what the comparative collections would have been on the fiscal year prior to the installation of the mechanical collective means and on the fiscal year subsequent?

Mr. MANN: I do not have the information—

Mr. BALDWIN: Just an estimate because it was only nine months, of course.

Mr. MANN: The automatic equipment was in operation longer than nine months, Mr. Baldwin. We were doing very well under the new system.

Mr. BALDWIN: In dollars and cents, what would it have been before and after?

Mr. MANN: Unfortunately I do not have the prior figures and I do not have with me anything but the 1963, 1964 and 1965 reports. Would you like us to give the committee a memo on this?

Mr. BALDWIN: Yes, if you would not mind furnishing this.

Mr. MANN: Yes, we could have this done. I am sorry, we should have had the 1962 reports as well.

Mr. BALDWIN: Now could I go on to one more question following that. There was a lease agreement made, as I see by page 8 of the long form report of the Auditor General, for a period of five years covering the installation of the automatic toll collection equipment at a daily rental of \$276. Now, obviously this lease must have been examined and apparently after the toll equipment was

removed your legal adviser from the Department of Justice indicated that there was no compensation, in their opinion, to which the company was entitled after the removal. That was the legal opinion which apparently was given. So, this subsequent payment of \$279,000 was the avoidance of a lawsuit—as a lawyer I always think that is a good idea—and secondly it was a compassionate gratuity. It was \$279,000 which was paid on a compassionate basis and not on a legal basis. Thank you.

Mr. MANN: I think perhaps, if I may, I will just say a few more words on this. We could have escaped the payment purely on a legal technicality, because the lease was so written that it provided for no compensation unless the board revoked the tolls. But the board did not revoke the tolls, the governor in council did. Now, on a pure legal technicality we could have avoided it. It was felt that this was perhaps not an equitable treatment of the company as the company would have been stuck with equipment which they could not have used anywhere else at all. So, after a long series of meetings it was decided to make a compensatory payment to the company.

The CHAIRMAN: Do you have any further questions, Mr. Bigg?

Mr. BIGG: I want to make a remark about this horse and buggy situation. The whole Canadian grain trade is to be complimented on the very, very high standard of grain trading which maintains our market in the world. I just want to say that I hope our National Harbours Board co-operates with the elevator people to keep this up. I would recommend to any member of the board that they go to any one of the government grain elevators and see this in operation. They will pick up the most minute piece of glass or metal, or anything which might pollute our grain.

The CHAIRMAN: Is it a fact, Mr. Mann, that various harbours are not equipped with modern, up to date and efficient grain handling devices? Perhaps you do not have the money to put them in. Is this a fair question?

Mr. MANN: No, Mr. Chairman, I would have to differ with that. To give you an example, our elevator No. 4 in Montreal is generally considered to be one of the most modern houses in the world. As a matter of fact, we partially automated that, and since we did it a lot of other people in the world have done it. Rotterdam would be an example, and you will find the new elevators at Tilbury near London will be built along the same lines. I think the general feeling is that our elevators—the new one, certainly—sets an example to other people in the grain trade.

The CHAIRMAN: Thank you. Now, gentlemen, do you wish to sit this afternoon and continue discussion with the harbour's people, or do you feel that you have exhausted your questions at this point?

Mr. BALDWIN: I have nothing more, subject to what any other members of the committee may think. I think that the board has been very frank and forthright in their answers. I have no further questions to ask, although I cannot speak for the other members.

The CHAIRMAN: Well, I think we might handle it this way. We will agree to have you back before the next 30 years and we will continue this interesting discussion, we hope, at another time. In the meantime we might set up a

subcommittee on the finance structure here, including all departments. I really think there is room for reconstruction of that. However, we will look forward to having you back again and we are happy that you came this morning.

Mr. LLOYD: Mr. Chairman, I hope that my remarks, in two sentences, will clearly indicate to this committee that we agree whole heartedly with the conclusions of the Auditor General that we need an early restructuring of the balance sheet, and we are making every effort to achieve it.

The CHAIRMAN: I am sure Mr. Henderson will be glad to hear that.

Now, I am requesting permission to table the long form reports as exhibits to our discussion. Agreed?

Some hon. MEMBERS: Agreed.

Mr. MANN: Mr. Chairman, on behalf of my colleagues and our associates, I would very much like to thank you for your questions and to say that we do hope that you will have us back on a yearly basis.

The CHAIRMAN: Thank you.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

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THURSDAY, NOVEMBER 17, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. Gilhooly of the Auditor General's Office; Mr. E. A. Driedger, Deputy Minister of Justice; Mr. R. Tassé, Superintendent of Bankruptcy; and Mr. J. A. Finlayson, Assistant Superintendent of Bankruptcy.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Prittie,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
 neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, November 10, 1966.

Ordered,—That the Standing Committee on Public Accounts, be empowered to appoint subcommittees, fix their quorum and refer to them any of the matters referred to the Committee; that any such subcommittee so appointed be given authority to send for persons, papers and records, examine witnesses, sit while the House is sitting, and to report from time to time to the Committee.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, November 10, 1966

The Standing Committee on Public Accounts having been duly called to meet at 9.30 a.m. this day, the following members were present: Messrs. Bigg, Hales, Lefebvre, McLean (*Charlotte*), Tardif, Thomas (*Maisonneuve-Rosemont*).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Mr. M. Laroche, of the Auditor General's office.

At 10.02 a.m., there being no quorum, the Chairman postponed the meeting to the call of the Chair.

TUESDAY, November 15, 1966

The Standing Committee on Public Accounts having been duly called to meet at 9.30 a.m., this day, the following members were present: Messrs. Lefebvre, McLean (*Charlotte*), Morison, Prittie, Schreyer, Thomas (*Maison-neuve-Rosemont*), Tremblay, Tucker (8).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Laroche and Smith of the Auditor General's Office; *From the Department of Fisheries:* Dr. W. H. Needler, Deputy Minister and Messrs. Falardeau and McArthur, departmental officials; and Mr. H. Leslie Brown, Commissioner General, Canadian Government Participation 1967 Exhibition.

At 10:00 a.m., there being no quorum, the Vice-Chairman postponed the meeting to the call of the Chair.

THURSDAY, November 17, 1966
(36)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Morison, Schreyer, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Gilhooly and Laroche of the Auditor General's Office; Mr. E. A. Driedger, Deputy Minister of Justice; Mr. R. Tassé, Superintendent of Bankruptcy; and Mr. J. Finlayson, Assistant Superintendent of Bankruptcy.

The Chairman read a letter from Mr. Mann, Chairman of the National Harbours Board. It was agreed that this statement be appended to the Minutes of Proceedings and Evidence. (*See appendix 13*)

The Chairman read a letter from Mr. Balls, Comptroller of the Treasury and the Committee agreed that the statement be printed to the Minutes of Proceedings and Evidence (See *Appendix 14*)

Discussion ensued and a decision respecting continuing the preparation of these listings of travelling expenses of employees in excess of \$1000 and payments to suppliers and contractors in excess of \$100,000 was held over pending further information from the Comptroller of the Treasury.

A point of order was raised by Mr. Baldwin relating to the November payroll requirements for the Public Service.

After discussion the Chairman ruled the question out of order as it was not within the Committee's Orders of Reference.

The Chairman introduced Mr. Driedger, Deputy Minister of Justice who addressed the Committee respecting *Paragraph 70, of The Auditor General's Report 1965—Living allowances to federally appointed judges*—and was questioned thereon.

The Chairman then introduced Mr. R. Tassé, Superintendent of Bankruptcy and Mr. Finlayson, Assistant Superintendent of Bankruptcy.

Messrs. Tassé and Finlayson were questioned by the Committee respecting *Paragraph 69, of the Auditor General's Report, 1965—Federal losses from bankruptcies*.

The Committee agreed that a prepared brief of Mr. Tassé be appended to the Minutes of Proceedings and Evidence. (See *Appendix 15*)

At 11.55 a.m., discussion continuing, the Committee, adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 17, 1966.

● (9.40 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. There are two letters that I would like to read into the record at this time and it will take only a few minutes. The first one has to do with a request of Mr. Baldwin at our last meeting. It is from Mr. H. A. Mann, Chairman of the National Harbours Board, and it reads:

Dear Mr. Hales:

In answer to a question directed to the National Harbours Board representatives this morning by Mr. J. W. Baldwin, Member for Peace River, when we appeared before the House Committee on Public Accounts, we promised that we would give the Committee a memorandum on the comparative figures of income in connection with manual toll collections versus automatic toll collections at Jacques Cartier Bridge, Montreal, P.Q.

I should explain that automatic toll collecting equipment became operative on Jacques Cartier Bridge on September 8, 1959. Consequently, we attach a statement showing traffic and toll income figures for two complete calendar years before and after the installation of the automatic equipment.

We trust that this will provide the information required.

Would you agree to have these figures attached as an appendix.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Baldwin, a copy will be forwarded to you.

The other matter goes back to a meeting we had in June when Mr. Balls was before this Committee, and I believe it was Mr. McLean who asked for the following information:

When I appeared before your Committee on June 16, 1966, I gave an approximate figure of \$10,000 as a cost estimate respecting the preparation of the listings of travelling expenses of employees in excess of \$1,000 and payments to suppliers and contractors in excess of \$100,000, which I handed to you that day.

At your meeting on June 28, 1966, I am advised that the Committee requested a report from me on how I arrived at the cost of \$10,000. This figure was quoted on an over-all appraisal by my headquarters staff as their opinion of minimum costs. I subsequently requested my Chief Treasury Officers to supply me with their estimates of the costs for the

preparation of these lists, and, from their replies, I find that the estimate of \$10,000 considerably under-stated the over-all cost. Estimated costs as submitted by my Chief Treasury Officers amount to \$26,299.42.

I am attaching a breakdown of these costs by Treasury Office, as requested by the Committee.

I hope that this information will assist the Committee in deciding if it wishes my office to continue to prepare these listings for its information. As I indicated on June 16, I shall be happy to provide this information if this is the Committee's wish.

I would like to have the breakdown of costs attached as an appendix to our proceedings.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, you may want to discuss this a little bit, and just to refresh your memories the government previously was listing in the back of the public accounts—the blue book which is published each year—a list of those travelling expenses over \$1,000. In 1964 our Committee recommended that this list be dispensed with, and this was done.

Then we reviewed this matter in this year's Committee; a discussion arose, and I think that we were of the opinion that we should continue to exclude this information in view of the fact that if anybody wanted to know what any one person spent on travel, they could obtain this information by calling the Comptroller of the Treasury. At this point it was Mr. McLean, I believe, who asked what it would cost to have this list published. We have been provided with the figure of \$26,299.42. I think we should confirm our earlier decision or reverse it, and I am sure, Mr. McLean, you will want to say something in this regard because you asked for this information.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would like to know exact figures. The figure of \$10,000, was mentioned, but I would like to know just how much it costs because I thought it was about \$5,000. Perhaps somebody will say it is \$10,000, but I see it costs \$26,000. Would it come to the attention of the Auditor General, when looking over the accounts, that someone was spending excessively?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Yes, it would come to our attention, Mr. McLean, but depending on the context and nature of the case I should have to decide if I should bring it to the attention of the House. Just to add to what the Chairman said, it was a Committee recommendation in the Ninth Report, 1965, and I am reading from a reference made to it in my 1965 report:

"Your Committee recommends that listings of the travelling expenses of employees in excess of \$1,000 and of payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee."

You inserted that because the subcommittee in its recommendation had proposed that it be deleted due to the tremendous amount of work involved and the pages it would save—and there is no doubt but that it was very worthwhile saving. You did have some reservations; you put this in and then, when Mr. Balls was giving testimony, he pointed out that he could assist the Committee by preparing this for at least the next year so that you could see it, and that is what

has been distributed to you. If he is to continue doing it he says it will cost \$26,000 a year in terms of his out-of-pocket expenses. It is really for you to decide whether you want to have all those listings set out in the public accounts or whether it would be sufficient—and I think I am quoting Mr. Balls correctly—for you to make individual requests for information which, although not listed in the accounts, he might be able to provide.

Mr. McLEAN (*Charlotte*): Mr. Chairman, we have no idea when somebody is running around the country; he might run around the whole year and we would never know anything about it, and we would not know what to ask for. I thought this would come under your scrutiny and that if you noticed anyone incurring excessive travelling expenses you would bring it to the attention of the Committee, and that would be all that would be needed.

Mr. HENDERSON: I consider it would be my duty to bring such a case to the attention of the Committee if I saw one or had any reservations about it. As you know from time to time I have had observations to make in past reports. I cannot recall any specific instances except observations along general lines, where we thought payments were excessive. Certainly you have asked me to bring non-productive expenditures before the Committee, and you know only too well the volume I have brought before you in that respect.

I do not know to what extent the detailed listing of all these in the public accounts is of use to the individual members. I would question whether it acts as any particular sort of deterrent to anybody who is likely to overspend, because it simply lists the person's name and amount of money. It might be one trip: it might be 200 trips.

Mr. LEFEBVRE: Is there any way at all by which the taxpayers of this country can know whether these trips are productive or non-productive? Is there any check made by your department?

Mr. HENDERSON: I cannot say that our audit programs contain a direct verification of the nature of the trips, although we do try to apply commonsense, and the extent to which some of the trips might appear to be unnecessary, then I would mention it. For example, I mentioned to you the cost of sending investigators in Australia when we lost \$13,000 in the Canadian Mission there through theft, and I pointed out that the cost of investigating and sending people to Australia on that occasion also amounted to \$13,000. I felt that was a questionable expenditure.

Mr. LEFEBVRE: It ended up costing \$26,000.

Mr. HENDERSON: That is the point. That is the way I try to look at it. On travelling expenses you have to rely very largely on the judgment of the people who are responsible, the people who are approving it.

The CHAIRMAN: May I ask who is responsible, Mr. Henderson, for approving travelling expenses in various departments?

Mr. HENDERSON: It is the chief financial officer or, more particularly of course, the deputy minister who has to take that final responsibility. The Comptroller of the Treasury is there to help him, certainly to check arithmetical accuracy and make the final payment, and expense accounts have to conform to the requirements of Treasury regulations. But the *raison d'être* for the trip—its necessity—and whether he spent three weeks or three days, essentially has to be

the responsibility of the man whose policy is being carried out, namely, the deputy minister, and he delegates it in turn.

Mr. LEFEBVRE: Are there uniform rules and regulations for every department?

Mr. HENDERSON: Yes, they are set out by the Treasury Board. The Comptroller of the Treasury applies those in terms of what his requirements are on the travelling expense claims, the type of vouchers, and the detail. He has a standard form, and it is a very good system that is followed. But it would be too much to expect him to determine whether the man required to be away three weeks or three days on a trip or whether, in fact, he needed to go at all. If he has any questions about that he will ask the deputy minister, just as I will ask him if I encounter it in my post audit.

Mr. BALDWIN: I suppose it comes back to the little posters we used to see on the wall during the war, "Is this trip really necessary?" On this issue it boils down to a question of the discretion of the deputy minister. Nobody can make rules telling the deputy minister or the chief financial officer of a department whether trips are essential. This is for him, in his discretion, to decide.

Mr. HENDERSON: I would agree; it has to be in the final analysis. I mentioned the requirements of the Comptroller of the Treasury. There are also the regulations of the Treasury Board, which are quite specific. It, too, is watching this total situation, and the Board does not hesitate to query some of these points I mention if they come to their attention. But it is a query addressed, as I say again, to the deputy minister, because he is the man who is in charge of the running of the department.

The CHAIRMAN: I think we might have an answer to this that would satisfy the Committee. Would the Committee like to set one meeting aside for discussion of travel expenses, and pick out the department that has had the largest travelling expenses during the last year, 1965. We would then call the deputy minister and the comptroller of that department before this Committee and ask them to bring with them a good number of vouchers for travelling expenses, where they went, what was spent, and so on. Would that meet with the approval of the Committee?

Mr. LEBLANC (*Laurier*): Mr. Chairman, vouchers have to be submitted before travelling allowances are received, so all vouchers are being submitted to a responsible person in the department. They are audited after that, so I do not see why we should see the vouchers.

The CHAIRMAN: I just mean a sample voucher so you would have an idea.

Mr. LEBLANC: We have the auditors here and because we are discussing just the principles, I do not see why we need to have all those details.

The CHAIRMAN: Would the Committee like to have one meeting on the discussion of travelling expenses?

Mr. McLEAN (*Charlotte*): I think it would be a good idea to take one department and have them explain how these accounts are audited, approved and so on. They are running loose.

Mr. HENDERSON: Perhaps you might like to raise this matter when Dr. George Davidson, the Secretary of the Treasury Board, is with us, because this is of great importance to him.

Mr. FLEMMING: My observation is simply that I think the reasons behind the incurring of the expenses for travelling are important. I doubt the general advisability of bringing all vouchers as proof because I am sure that is well looked after.

My second observation would be that it seems to me an element of control could be exercised by the budget figure for expenses in the various divisions of departments. If the deputy minister recommends, say \$15,000 for travelling expenses, we will just have to live within that and that is all there is to it. I find budget figures are a great deterrent, and I find in private business that they are. If there is only so much money available, it is astonishing how many people will address themselves to the duty of living within that appropriation.

Mr. McLEAN (*Charlotte*): Mr. Chairman, sometimes it is an encouragement to spend money if they have the budget and the money is there.

Mr. FLEMMING: If it is too high, yes, but presumably it is not going to be too high.

Mr. FORBES: I note by this letter you have here the Comptroller of Treasury gave you a figure of \$10,000 as the over-all cost. But then, when he checked it up he discovered it was \$26,299.92. Now, if you look over on this itemized page you will find that the regional district treasury office itself was \$6,700-odd, so it is quite evident that he was not paying very close attention to the cost associated with travelling expenses or he would have known his own department was very close to \$10,000 itself.

The CHAIRMAN: Well this list is his costs of preparing the information.

Mr. HENDERSON: His men are preparing the information. Could I see the list a moment?

The CHAIRMAN: Yes, that is the cost of what he says it will take to prepare the list.

Now, gentlemen we must finalize this first question. Will we ask the comptroller to furnish this information for this Committee at a cost of \$26,000 or will we leave it on the basis that if anyone wants to know the travelling expenses of any one individual they can obtain this information through a request to that department.

Mr. SCHREYER: There is one other matter involved here, whether or not there should be a deletion of a listing of all payments to suppliers and contractors for amounts less than \$100,000. I am wondering if a distinction should not be made here between contracts that are let by way of tender and those that are let on a non-tender basis, perhaps cost-plus, although I am not really sure that the term "cost-plus" really covers all other forms of letting contracts.

The CHAIRMAN: Mr. Henderson, do you see any problems there?

Mr. HENDERSON: There is a distinction Mr. Schreyer. You might care to look at page 9 of my 1965 report where I refer to the deletions. They are listed. You will see under (g) the recommendations of the committee in terms of deletion. It was proposed to delete the listing of contracts for construction or acquisition of

buildings and so on, when the amount is less than \$100,000, and for cost-plus contracts under \$10,000. The present listings are for amounts of \$10,000 or over (\$25,000 or over for defence contracts) and \$5,000 or over for cost-plus contracts. As a result of that decision at that time, it was estimated that 149 pages in the large blue book of public accounts would be saved.

The CHAIRMAN: You see, gentlemen, this committee formed a subcommittee to look into this whole matter and these are their findings. They were approved by the Public Accounts Committee and I think the question now is, are we going to overrule an earlier decision of this committee or not?

Mr. LEBLANC (*Laurier*): That was discussed at length, during our various meetings on this subject. After examining all the arguments for and against we finally decided that we would leave them out, so I would think we should stay with our previous resolution.

The CHAIRMAN: Are you ready for the question?

Mr. SCHREYER: I do not want to prolong discussion on this, but it seems to me that in addition to cost-plus type of contracts and those that are let on a basis of tenders there are those that might be termed hourly rate. Now hourly rate contracts are not cost-plus. It seems to me that we should draw a distinction here between the two kinds of contracts.

The CHAIRMAN: Mr. Schreyer, I understand your problem and this might help solve it. The Department of Defence Production, and the Department of Transport send to each member of the House a listing of the purchases each month giving the amounts, from whom the purchases are made, and contracts under a certain amount. Would that not be the information you are concerned about?

Mr. SCHREYER: It may cover it, Mr. Chairman. I will not pursue it further at this point. Thank you.

Mr. HENDERSON: There is one pertinent point here that I think the members should recognize. Following this recommendation by the committee effect was given to these deletions in the public accounts for 1965. This is a slimmer book. You passed these recommendations in your 9th report of March 1965 for the express purpose of making it possible for the Comptroller of the Treasury and his officers to give effect to it in the 1965 accounts, and they did. The reason you raised this whole matter in the first place, or one of the reasons was, I think, an endeavour to cut down the cost of preparing this very voluminous book. It might therefore be interesting to find out what the cost of printing and publishing the reduced edition has been and whether in fact you have really saved the money you set out to save by these deletions.

I mention this, Mr. Chairman, because I watch the costs of my own report closely and I must confess to the committee that it went up last year; I was very concerned about it and I am still concerned in my efforts to see if it cannot be cut. It might be of interest to ascertain what it has cost in 1965. The 1966 one is now in course of preparation.

Mr. McLEAN (*Charlotte*): It probably went up even with the deletions.

The CHAIRMAN: There are other factors involved.

Mr. HENDERSON: Then, perhaps, you could relate a little better the \$26,000 that this is likely to cost.

The CHAIRMAN: Gentlemen, would you like to let the matter rest at this point and we will get the information as suggested by Mr. Henderson. We will let this matter rest until another meeting and wind it up then. Is it agreed?

Some hon. MEMBERS: Agreed.

Mr. BALDWIN: Mr. Chairman, before you go on to anything else, I want to bring up a matter now, on a point of order. I will refer to it very briefly—it will probably involve a ruling by you—and I would ask you to wait until I have concluded and then you can make a ruling. It involves a question which has been before the House recently, as to the methods involved in meeting certain cheques, and certain statements have been made in the House as to the powers of this Committee. In order that we may set the record straight on what our powers and authorities are, I would contemplate asking the Auditor General for his comments on the statements made in the House with regard to the method of paying the salary cheques for the middle of the month, referred to by the Minister of National Revenue. I quite honestly say I think if I asked the question you would be justified in saying I was out of order because the terms of reference we have been given limit our scope to the Auditor General's report for two years and the public accounts for the year. The particular issue involved, of course, will not be coming up for consideration by this committee until sometime after the 15th of January 1968, when the Auditor General's report for this fiscal year is filed, and then is referred by the House to us for consideration. I do notice that Dr. Davidson will be appearing before the committee later on and that the agenda with respect to his comments deal with the form and contents of the estimates, the revised vote pattern and so on. Although there might be a general discussion of the principles involved there but we still, I do not think, would be able to get into the specific issue. This is all I have to say. I would simply ask you to rule on my proposal to ask the Auditor General this question at this time.

The CHAIRMAN: Mr. Baldwin, as Chairman of this committee, I must go by the terms of reference the House has given to us. I have no other alternative. Just to refresh our memories, I have before me the terms of reference and it says:

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal years ended March 31, 1964 and March 31, 1965, and the Reports of the Auditor General thereon, tabled on February 16, 1965 and February 1, 1966, respectively, together with the reports and financial statements of the Canada Council for the fiscal years ended March 31, 1964 and March 31, 1965, and the Reports of the Auditor General thereon, tabled on July 14, 1964 and March 7, 1965 respectively, be referred to the Standing Committee on Public Accounts.

Now those are our terms of reference and I must adhere to that. When Dr. Davidson comes before us we will rule at that time on whether we are within the bounds of our terms of reference. But, at this moment I would rule your proposed question out of order.

Mr. FORBES: Mr. Chairman, would you consider asking the House to broaden our terms of reference to allow us to make even a brief inquiry into a matter as serious as this. I am certain that all members of the House wish to have this matter cleared up because of the clouded suspicion that something was

done under the table that did not come within the scope of the general business of the House of Commons.

The CHAIRMAN: Mr Forbes, it will be up to this committee to discuss this matter and decide whether we want to ask the House to refer it to us. So, we would have to have a request go to the House from this committee. If it was the wish of this committee I would present it to the House and then we would have to decide if we would ask for concurrence in it that day. If we do, and the House would grant us that right, then it would become a debate on the floor of the House. That would be the procedure. In view of the witnesses we have before us I do not want to open this up this morning. If at our next meeting you would like to discuss this matter and prepare a motion, if the committee so wishes, I am in your hands.

Mr. FORBES: We could not move a motion now?

(Translation)

Mr. TREMBLAY: Mr. Chairman, is it normal procedure for the Committee to take the initiative and to ask the House to refer this Bill or is it not up to the House to refer this to us?

(English)

The CHAIRMAN: Well, Mr. Tremblay, I think it can work either way. This committee can ask the House to concur in a recommendation that we make to the House, but the House may refuse it.

Mr. BALDWIN: I think you are right, Mr. Chairman. The ultimate decision is a decision of the House. It can be initiated either by a motion in the House or by a motion of this committee referred back to the House. But, in the final analysis, it is for the House and not for us to decide.

The CHAIRMAN: I think, as members of this committee, we are all interested to know how this can be done. I think we should have a discussion in this committee, and after we hear the views of the Auditor General and others then we would be in a position to say whether or not we want to refer it to the House. The Auditor General might give us some information that we might not be too happy to take before the House. It might make us look as though we had made some decisions as a Parliament that maybe we should not have made.

Mr. BALDWIN: It would not be the first time.

The CHAIRMAN: I think possibly at this moment I would rule Mr. Baldwin's proposed question out of order. At our next meeting, if it is your wish, we will look into this matter and decide whether or not to ask the House. I am willing to devote our next meeting to this question.

Mr. McLEAN (Charlotte): Mr. Chairman, I would say right now that personally I would not be able to discuss it because I know nothing about it.

The CHAIRMAN: I was thinking that all of us would have to have a good briefing on the whole thing. Mind you, the House might refer this to us. There is a request before the House at the moment—and there has been on several occasions. The House may see fit to refer this to our committee. If they do, we are away; if they do not then this committee may wish to ask the House to do it.

Mr. FORBES: I move that this subject matter be discussed at our next meeting.

Mr. SCHREYER: I second the motion.

The CHAIRMAN: It is moved and seconded that at our next meeting we have a discussion on this matter of—

Mr. BALDWIN: I think the mid-month salaries for November would be the subject matter.

The CHAIRMAN: —the payment of supplies.

Motion agreed to.

The CHAIRMAN: Out of that meeting will come a decision.

Mr. BALDWIN: Mr. Chairman, we will get a quorum at our next meeting, for sure.

The CHAIRMAN: We have our meeting listed for next week and the witnesses who will appear. However, we may have to call these witnesses and tell them circumstances will postpone the submission of their evidence.

Mr. SCHREYER: Mr. Chairman, I have a question, asking, for information. Does the Auditor General have as part of his normal authority and function, the authority to look into this matter in the interval between now and our next meeting, or must we await specific instructions from this Committee or Parliament?

The CHAIRMAN: No; the Auditor General has the authority in his position as a servant of Parliament to do such a thing.

Mr. SCHREYER: Well I understand part of that, but I was wondering if he has the authority in a normal way to look into a matter of expenditure or granting of supply in a fiscal year that is really ahead of the fiscal year presently under consideration. That is really the main point of my question.

Mr. HENDERSON: I can reply to Mr. Schreyer by saying that we carry out our auditing throughout each month. I have officers stationed in most of the departments who are examining the transactions shortly after a great many of them take place. If it were to be a specific report from me that you would want on some phase of the work such as this, then it seems to me, as a servant of the House, that I should be so instructed and that should be in the form of a resolution by the members of the House. I report pursuant to the statute annually, which in this instance would mean that I would be reporting on this particular matter in my report for the year ended March 31, 1967. It would be tabled at the beginning of 1968 and this committee eventually would get around to the appropriate paragraph. The report has to be referred to the committee. So my work is very essentially a postaudit in that respect. But as a servant of the House, I say again, I am in your hands.

Mr. FORBES: The point that has to be brought up is simply this. Did the government have the authority to use moneys that were surplus from previous books to pay the salaries at this time. I understood, when we went into supply, the government was out of money and could not pay salaries or anything else until a new supply was voted. This time they were able to pay the supply

without the vote. I think because this is a very important matter, that we should have it cleared up.

The CHAIRMAN: Quite right, Mr. Forbes and at our next meeting I think we can discuss this one way or another and decide, after we have heard the views and discussed the matter, whether we would ask the House to—

Mr. TUCKER: Well, Mr. Chairman, was that question asked in the house? Did the Minister of Revenue not state that he had received legal device?

The CHAIRMAN: Yes. He also said he would take under consideration referring the matter to this Committee, so he may do that.

Mr. HENDERSON: Sir, could I intrude and ask if I could be clear in my mind exactly what it is you would discuss next Tuesday. Is it the whole range of the subject mentioned by Mr. Forbes, or is it whether or not you will make such a request to the House? It seems to me there are two points here.

The CHAIRMAN: Well, first of all, Mr. Henderson, I do not think we are in a position to make a request to the House until we know what we want to request and whether or not we are going about it in the right way. As a matter of fact, there was a change of vote system put into effect.

Mr. LEFEBVRE: Mr. Chairman, what we are trying to clear up is whether or not the Minister of Revenue acted in a legal manner in paying these bills. Is that what we want to clear up?

The CHAIRMAN: I think so.

Mr. LEFEBVRE: And he said in the House that he had had a legal opinion on it. So if we do not think he had the authority, it is not up to our Committee; it is up to the Committee on Justice and Legal Affairs to make sure whether or not he did it legally or illegally. I think we are getting out of our domain a little bit. I think it is a question for the Committee on Justice and Legal Affairs. Is that the right name for it?

Mr. BIGG: They could pass it back and say it was up to Public Accounts.

Mr. LEFEBVRE: The thing is we do not know whether it was legal or not; we are questioning this. Some people here are questioning it. It is not up to the Public Accounts Committee to give a legal opinion; that is certain.

Mr. SCHREYER: Mr. Chairman, the problem is one involving supply and control of the purse and if this Committee is not properly the one that should be dealing with it then I, for one, do not know which Committee of the House should do it.

Mr. LEFEBVRE: You are questioning whether his legal opinion was right or not. This Committee is certainly not set up to give out or question legal opinions.

Mr. BIGG: Well, I think we are. If we do not like the legal opinion we can suggest to Parliament that the law be changed, that we do not think this is the proper way to handle the public purse whether it is legal or illegal. We are doing it all the time; we make our recommendations.

The CHAIRMAN: Well, after Mr. McLean comments I am going to make a ruling.

Mr. McLEAN (*Charlotte*): It seems to me that we are here to question the expenditure of money to see whether or not they are spending it right. We know that the civil servants were entitled to their money and we know that the money was found. I do not think we can question whether they were paid or not, or whether they should be paid or not; I think this is a legal matter because they have been paid. They have the money, and there is no question about whether or not they should have gotten the money but whether or not they got it legally. Now, I do not think we are involved in that.

Mr. BALDWIN: Before you make a ruling, Mr. Chairman, I think we can reconcile these two points of view. There is a question that Mr. Forbes has raised on the legality. There is some doubt how far we can go but, even if it was resolved that it was a perfectly legal way in which to do it, surely this Committee can come to this conclusion, particularly when you see the type of statement which Dr. Davidson is going to be making with regard to the revised vote pattern and the form and contents of the Estimates. We can say whether or not it is wise and judicious in the exercise of the right of Parliament to control expenditure in the right way, whether it is legal or not. Also we can make recommendation, all partisanship aside, on whether we think generally, as members of parliament something should be done about this method. Now it may be that we will be of use to the government, but I suggest that far overshadowing the legality is the wisdom of steps of this kind being taken in this way. I think this Committee is the proper forum to discuss at least the latter aspect. It was with that idea in mind that I brought it up.

Mr. McLEAN (*Charlotte*): I would like the Auditor General's opinion on whether this comes within our scope or whether it should come within the scope of another Committee because I think we are here to check expenditures.

Mr. FORBES: Could I just make one further contribution—

The CHAIRMAN: Yes.

Mr. FORBES: —that the government ask for supply on a basis of one-twelfth each month. Now, then, if they have the money, there is no need to ask for supply. Why waste all the time in the House giving us an opportunity to do the things that have been going on? If they have the money they do not need to ask for supply, and they deprive us of the opportunity of bringing up any grievances.

The CHAIRMAN: Now I do not intend to get into a debate on this matter at this stage. I am sure we will have an opportunity to discuss it.

I have ruled that we must stay with our terms of reference. A motion was moved and seconded, and the Committee decided to discuss this at our next meeting. Then we got into a little discussion whether or not we would do this and what would we discuss. At this point Mr. Henderson asked a very pertinent question and we stopped to think a little bit about it. Mr. Henderson, will you carry on from that point?

Mr. BIGG: Mr. Chairman, in view of the fact that we are so far behind in our work I wonder if we could call a special meeting to discuss this rather important subject. These witnesses have been called and we want to get along with our routine business. I just make that suggestion. I thought we should try to have this Committee meeting Tuesday afternoon instead of Tuesday morning, or arrange to put it off until the planes are running.

The CHAIRMAN: If I might interject, following your line of thought, Mr. Bigg, that when Dr. Davidson is before this Committee I am sure he will be able to ask plenty of questions concerning this matter and how it was done.

Mr. BIGG: Is he up next week?

The CHAIRMAN: No, not next week.

Mr. BIGG: I thought, this discussion was set down for our next meeting, not that I object to this but there is our routine business.

The CHAIRMAN: May I suggest that at our next meeting, on the morning of November 22nd, we have the Manpower Department with us. We could sit in the afternoon, if Dr. Davidson can come in the afternoon.

Mr. McLEAN (*Charlotte*): We generally have a finance meeting in the afternoon, and I would like to postpone this.

The CHAIRMAN: Well, this will be a real finance meeting in here, Mr. McLean.

Mr. McLEAN (*Charlotte*): I cannot be two places at once.

The CHAIRMAN: No. Let us finalize this. Does the Committee agree to carry on with our schedule next week, with the manpower people in the morning. Then we could meet in the afternoon and ask Dr. Davidson if he could attend. It may be that he will not be free.

Mr. McLEAN (*Charlotte*): My objection to the afternoon meeting is that I just cannot attend it.

The CHAIRMAN: Would it affect anybody else if we had an afternoon meeting?

Mr. BIGG: Could we leave it, sir, that you will notify us when this matter will be discussed so that everybody can be here.

The CHAIRMAN: Is it agreed to leave it with the Chair, then?

Mr. LEFEBVRE: The motion that we passed this morning was that we go into this subject further at the next meeting?

The CHAIRMAN: When Dr. Davidson is with us, I think it was.

Mr. BIGG: The next meeting that he is here.

The CHAIRMAN: The next scheduled meeting with Dr. Davidson.

Mr. FORBES: I think we should explain that we missed one meeting and this was the meeting that Dr. Davidson was to attend.

Mr. LEFEBVRE: We have missed two meetings in a row.

The CHAIRMAN: I must apologize to our witnesses but we had important business before us.

I want to introduce Mr. E. A. Driedger, Deputy Minister of Justice and Mr. Tassé the Superintendent of Bankruptcy is here as well. I will ask Mr. Henderson briefly to introduce the subject matter and then Mr. Driedger will follow with his explanation.

Mr. HENDERSON: The subject matter is paragraph 70 of my 1965 report which begins on page 41.

70. *Living Allowances to federally-appointed judges.* In our 1962 Report reference was made to the payment of living allowances to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees. We expressed the opinion that a daily rate of \$60 appeared excessive as a living allowance and could be regarded as including an element of remuneration, contrary to subsection (1) of section 39 of the Judges Act, R.S., c. 159. This section prohibit the payment to a judge of any remuneration in addition to his judicial salary "for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the Government of Canada or the government of any province", subsection (3) of the same section simply permitting payment of "such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant-Governor in Council, as the case may be, may fix by general or special order".

The Public Accounts Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration and recommended in its Fourth Report 1963 that if additional remuneration was to be paid to judges, the approval of Parliament for such payment should be obtained. The Committee took notice of a subsequent appointment at \$100 per day and reiterated the recommendation in its Fourth Report 1964 (see Appendix 1, item 7).

The Minister of Justice, in a letter to the Chairman of the Public Accounts Committee dated August 13, 1964, referred to the fact that the allowance was subject to income tax and gave as his view that it did not contain an element of remuneration. He went on to say that even if an element of remuneration was included, it was not prohibited by the Judges Act and "no further approval of Parliament is necessary".

Two additional circumstances have now been noted which support the opinion that the amount of these allowances is such that an element of remuneration is included therein and consequently that they are contrary to existing legislation covering payments to judges:

1. A judge was appointed to act as an Industrial Inquiry Commission to inquire into the industrial situation arising from the running of certain trains through terminals in Ontario and Alberta. An allowance of \$100 per day plus actual out-of-pocket transportation expenses was authorized and he was paid \$13,200 in allowances in the year under review, although his duties were performed substantially at his place of residence.
2. Certain judges who had been granted allowances of \$60 per day while acting outside their normal judicial duties were granted remission of the additional income tax resulting from receipt of the allowances.

This is also one of the items that is in the follow up report because it was back in 1963, in the first report of this Committee, that the matter

was first brought to the attention of the House. The Committee noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxi cabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It therefore recommended that if remuneration was to be paid to judges appointed for the purposes described above the approval of Parliament for payment of such additional remuneration should be sought.

No action was taken on this. In May 1964, you will recall, the \$60 per day rate that you had criticized was increased to \$100. There was a case approved at \$100 a day, and the Committee again reiterated its recommendation to the house. In my note 70 on page 41, you will observe at the top of page 42 a further case which came to my attention last year, whereby a judge was appointed to act as an Industrial Inquiry Commission to inquire into an industrial situation arising from the running of certain trains. He was given an allowance of \$100 a day plus his actual out of pocket expenses; he received \$13,200 in allowances in the year, although all his duties were performed substantially at his place of residence. So that, it appears to me this reconfirmed the position that I had taken and which you had supported.

To conclude, Mr. Chairman, I should mention that this entire case was the subject of a paper delivered to the American Bar Association by the Chief Justice of the Province of Quebec, Mr. Tremblay who, in supporting our stand, quoted the Committee's entire recommendation to this particular convention. I do not believe any action has been taken yet so perhaps Mr. Driedger would care to address himself to it, Mr. Chairman.

The CHAIRMAN: Before Mr. Driedger commences, I must say we certainly appreciate him coming this morning. He was in Vancouver attending a judges' conference; the air strike took place and he managed to get here by means of an RCAF plane flying from Vancouver to Comox, from Comox to Winnipeg, from Winnipeg to Trenton, arriving here late last night. He was in here this morning at 9.30. He has made a great effort to be with us.

Mr. E. A. DRIEDGER (*Deputy Minister of Justice*): Mr. Chairman and gentlemen, perhaps it might be helpful to the Committee if I reviewed briefly the legislation on this subject, the changes that have been made over the years, and the reasons for them.

Prior to 1920, there were no special provisions in the Judges Act dealing with commissions, boards, arbitrations, or with extra-judicial activities of that kind. There was one general section, section 33 of the Judges Act of 1906, that required judges to devote themselves to their judicial duties; that section has been carried forward through the years and is now section 37 of the Judges Act.

The first time that provisions concerning commissions or enquiries appeared in the Judges Act was in 1920. There was an extensive amendment to the Judges Act in that year. Judicial salaries were increased and some provisions were put into the Judges Act dealing with commissions or enquiries. That was section 34 of the Judges Act of 1906, it was enacted by section 12 of chapter 56 of the statutes of 1920. Subsection (1) provided that no judge shall receive any remuneration in addition to his judicial salary for acting as administrator or

deputy of the Governor General, or for any duty or service, whether judicial or executive, which he may hereafter be required to perform for or on behalf of the government of Canada or the government of any province. Subsection (2) provided that every judge who may be nominated for the purpose by the Governor in Council or the Lieutenant Governor in Council shall execute without additional remuneration any commission or enquiry for which he may be appointed as commissioner under any authority in that behalf exerciseable by the Governor in Council or the Lieutenant Governor in Council, including the discharge of the duty of arbitrator held at the city of Winnipeg. There was a particular reference to arbitration in the city of Winnipeg. And then it went on to say that nothing in that paragraph should affect a judge's right to receive travelling allowances if he resided at a place at which he is by order of the Governor in Council required to reside.

That provision was carried forward into the Revised Statutes of Canada for 1927. There were some verbal changes. Section 38 of the Judges Act of 1927 again provided that no judge should receive additional remuneration for acting as administrator or performing any duty or service for the government, and subsection (2) repeated the amendment of 1920 to the effect that a judge who may be nominated for the purpose by the Governor in Council or the Lieutenant Governor in Council shall execute without additional remuneration any commission or enquiry for which he may be appointed. But it went on to say that any such judge, while acting as commissioner or arbitrator, was entitled to receive his moving or transportation expenses and living allowance at the rate and upon the conditions authorized for travelling allowances.

I might explain at this point that until recently, about 1960 or 1961, judges received a per diem allowance for the discharge of their ordinary duties. This was for many years \$8 a day for attending in a place that was not a city and \$10 a day for attending in a place that was a city. This was changed later to \$10 and \$12 a day respectively and then again later, I believe, to \$12 and \$15 a day. However, that gave rise to many problems because you could not pay for your hotel room, your meals and other expenses in the larger cities for that amount of money, yet it was more than what you had to pay in some of the smaller cities or in some of the less populated provinces. We felt at that time that it was absolutely impossible to fix any amount that would pay all of the expenses of a judge attending at the larger cities but would not at the same time give some advantage to judges in other places.

The result was that in 1960 a per diem allowance for ordinary attendances was abolished and now judges are paid their actual expenses. But when the act of 1920, as included in the revision of 1927, referred to the travelling allowance rates, it referred to that \$8 and \$10 a day which was later increased to ultimately \$12 and \$15 a day.

That was the state of the law until 1946, and there was a revision of the Judges Act in 1946. This particular section gave rise to a number of problems. I remember them very well because I was the officer of the department then, as I am now, who dealt with all judicial matters. The problems that arose under that section were these. First of all, it said only commission or enquiry but it did not mention arbitrations, so the question arose whether that section applied to arbitrations or not. Secondly, the travelling allowance for judges of \$12 a day, which I think it was then in 1946, was not enough to pay for the expenses of a

judge attending on an ordinary commission, enquiry or arbitration. A judge who received a travelling allowance of \$12 a day for his ordinary judicial work would perhaps lose sometimes and gain other times and the saying was that what you lost on the curves you made up on the straightaways. But the situation was different if you attended a commission on arbitration that might last a week or two or longer, with the result that judges were losing money when they attended a commission or an inquiry. Also, as I mentioned earlier, it was not too clear whether this prohibition against receiving any remuneration applied to arbitrations. There were, in fact, cases where judges were acting on arbitrations and I am not suggesting that it was improper; no doubt they felt they were authorized to do that or, at least, not prohibited from doing that. The fact is, too, that some of those judges at that time were receiving a per diem allowance of \$25, \$30 or \$40 a day, and we felt in 1946 that the practice and the law should be changed. I might mention in passing, also, that I believe there were cases where judges also received a per diem allowance for attending on a commission or inquiry that was higher than the per diem allowance for attending on ordinary judicial work.

So in 1946, when the Judges Act was revised, these provisions in the Judges Act concerning extra judicial employment and remuneration were changed. There were four principal changes, and I shall refer to them in general terms before I refer particularly to the statute. One change was that it was made clear that the provisions applied to arbitration. Secondly, the allowance was changed. It was recognized that the per diem allowance for judicial work was not satisfactory for attendances on these special commissions, and instead of fixing the amount of the allowance by statute, we provided that the amount of allowance was to be fixed in the particular case—or generally, but fixed—by the Governor in Council or the Lieutenant Governor in Council, so that in an area where Parliament had jurisdiction it would be the Governor in Council and in a provincial matter it would be the Lieutenant Governor in Council. So the Judges Act then did not fix the amount of the allowance, although it was still fixed in the act in 1946 for ordinary judicial attendances.

Another problem was that subsection (2) of section 38 was absolute. It said every judge who may be nominated for the purpose shall execute without additional remuneration, but he was permitted to receive his per diem allowance. It was recognized then that even if a judge received a per diem allowance of \$12, he might in some cases have something left over and that would depend on where he attends and what his personal habits are. So that there was, in a sense, a little contradiction within that paragraph. On the one hand, it prohibited judges from receiving any additional remuneration but, on the other hand, it allowed them to receive a per diem allowance that might well in a particular case leave something over. Moreover, when the per diem allowance was changed and when it was provided that the Governor in Council or Lieutenant Governor in Council might fix the allowance, it was intended that it would be somewhat higher than the ordinary allowance for judicial attendances. Therefore, in the amendment the provision for allowance was made an exception to the prohibition in the section against receiving additional remuneration. Whether it was or was not a remuneration, whether it involved or did not involve a remuneration, it was made an exception to the prohibition in the act.

The final change is a rather minor one but important from our point of view. In 1921 an amendment was made providing that unless nominated by the Governor in Council, no judge should act as commissioner or arbitrator on any commission. We took the position that the Governor in Council had no jurisdiction to nominate a commissioner to attend upon an inquiry within provincial jurisdiction, the nomination could take place only by the appropriate provincial authority and, therefore, nomination was changed to consent. The result is that in the Judges Act of 1946, which has been carried forward to the present day, we find one section 38 which includes all of these provisions in the previous acts of 1920 and 1927 and section 37 continues the old section 33 which I have mentioned.

Section 38 provides in subsection (1) "Except as provided in subsection (2) no judge shall act as a commissioner or arbitrator on any commission or inquiry without the consent of the Governor in Council." I should like to draw attention, particularly, to those two changes: the opening words "except as provided in subsection (2)" and "the consent of the Governor in Council" rather than nomination. Subsection (2) makes consent unnecessary where the nomination is by the Governor in Council or the Lieutenant Governor in Council. Subsection (3) deals with an exception that was made in 1920. When the 1920 prohibitory legislation was enacted it preserved anything that was being done under certain statutes. That was preserved by subsection (3) of section 38 and also by subsection (3) of section 39. Section 38, then, deals with the propriety of acting on these extra-judicial tasks.

Section 39 deals with remuneration. It was separated from the one dealing with propriety. Again, it begins with the words: "except as provided in subsection (3)", and goes on to say that no judge shall receive any remuneration in addition to his judicial salary for acting as commissioner or arbitrator and so on. Subsection (3) then contains the exception, and it was our intention and I am satisfied in my own mind that this is what the statute says, that everything that is contained within subsection (3) is outside the prohibition contained in subsection (1). Subsection (3) provides that: "a judge acting as commissioner or arbitrator pursuant to subsection (2) of section 38 (that is the previous section to which I referred) or as administrator or deputy of the Governor General, or performing any duty or service he is required to perform for or on behalf of the Government of Canada or the government of any province, may receive, in addition to his judicial salary, such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant Governor in Council, as the case may be, may fix by general or special order".

The CHAIRMAN: Mr. Driedger, this right here is the crux of the whole problem.

Mr. DRIEDGER: Yes.

The CHAIRMAN: I think maybe you should read that again.

Mr. DRIEDGER: "A judge acting as commissioner or arbitrator pursuant to subsection (2) of section 38"—and that is the section which refers to nominations by the Governor in Council or the Lieutenant Governor in Council—"or as administrator or deputy of the Governor General or performing any duty or service he is required to perform for or on behalf of the Government of Canada or the government of any province, may receive, in addition to his judicial

salary such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant Governor in Council, as the case may be, may fix by general or special order."

The view that we have always taken is that whatever falls within subsection (3) of section 39 is excepted from the prohibition in subsection (1) of section 39.

Mr. McLEAN (*Charlotte*): That is really income?

The CHAIRMAN: Are you putting that question to Mr. Driedger?

Mr. DRIEDGER: I understand that that may be taxed as income under the Income Tax Act. I am only speaking from memory, but my recollection is that the Income Tax Act has a provision in it that includes as income everything received by any person by way of a living allowance, but it exempts from that payments to a person appointed a commissioner under the Inquiries Act, but not other commissioners or other tasks.

Mr. BALDWIN: May I ask a question?

The CHAIRMAN: Mr. Bigg and then Mr. Baldwin.

Mr. BIGG: I do not know whether it is proper to ask this question or not. It seems to me that there is a loophole here so far as the public purse of Canada is concerned although I may be wrong. Is it a fact that these allowances are paid out of the federal treasury once they are approved by you?

Mr. DRIEDGER: No, sir. They might or might not be, depending upon the nature of the inquiry.

Mr. BIGG: Is it possible that the Lieutenant Governor in Council could give, shall we say, \$100 a day to this judge on a labour arbitration matter and then we pay it?

Mr. DRIEDGER: No, sir. We do not pay that.

Mr. FORBES: Who does pay it?

Mr. DRIEDGER: I do not know. My understanding is that inquiries within a federal field of jurisdiction are paid by the federal government and within the provincial field of jurisdiction, the provinces pay.

Mr. BIGG: I thought all judges salaries and so on came out of the federal treasury?

Mr. DRIEDGER: Judges salaries, yes. That is why this section, you will see, is worded in the permissive form. It says: "A judge may receive".

Mr. BIGG: Yes, but here is what I am trying to get at. It would be quite possible for a federal judge to be appointed to a provincial job, say, of arbitrator on a provincial relations board, draw his usual stipend or salary from the federal government also be paid \$100 a day by the province, and we would not actually have him doing anything for us for a year. His salary does not stop just because he is on a commission.

Mr. LESSARD: You mean if he is removed from the bench?

Mr. BIGG: No. He is a federal judge and gets a salary of \$17,000 a year. The province can say, "Come to us; we need you for a year or two, and we will pay not only your expenses but \$100 a day for every day you sit on the commission." We do not have his services but we do have him on our payroll.

The CHAIRMAN: Mr. Driedger, is this a correct observation?

Mr. DRIEDGER: I do not know what is being done in any particular case. I do not know of any cases where a judge has not performed his judicial duties.

Mr. BIGG: Surely we are talking law.

Mr. DRIEDGER: Yes.

Mr. BIGG: It would be possible for a federal judge to be used for a year by one of the provinces and draw practically two salaries and we would have no use of him?

Mr. DRIEDGER: No.

Mr. BALDWIN: Surely, Mr. Chairman, let us not beg the case because what Mr. Henderson is making his observations on and what Mr. Driedger has been directing his attention to, is not only who pays the money but it is the legality of the judge receiving it. This is the issue. Is he receiving something which he is not entitled to receive? This I understand, is the meat of what Mr. Henderson has been referring to in his report.

Mr. BIGG: If Mr. Baldwin thinks he is clearing up what is in my mind, he is not doing it.

The CHAIRMAN: If you will finish your question, then we will go on to Mr. Baldwin.

Mr. BIGG: I just want to know whether it is not possible to have a judge drawing his federal pay but not doing any federal work because he is working for one of the provinces.

The CHAIRMAN: Do you care to answer that or should I ask Mr. Henderson?

Mr. DRIEDGER: It is a rather difficult question to answer because, after all, judges are not appointed to do federal work; they are judges of the provincial courts. The overriding principle is, of course, that the judicial business to be transacted in a province must not be prejudiced. Subsection (1) of section 38, for example, provides that: "no judge shall act as commissioner or arbitrator on any commission or inquiry without the consent of the Governor in Council." When that consent is requested, we always ask for assurance from the appropriate authorities that the work can be undertaken without prejudice to the administration of justice.

Mr. FORBES: May I ask one question? Are you inferring that a judge who is appointed and paid by the federal government is always under the jurisdiction of a province? Is this what you said?

Mr. DRIEDGER: No, I did not say that, sir.

Mr. FORBES: This is the inference you left. It should be cleared up.

Mr. DRIEDGER: Judges administer the law of the country. Now, there may be provincial or federal statutes and provincial or federal laws, but judges are not the servant of one government or the other. They are independent judges who administer the law, whether it be federal or provincial law, in the provincial courts.

Mr. FORBES: What about the Supreme Court judges? Are they available to the provinces at \$100 a day or do they deal strictly with Supreme Court cases?

The CHAIRMAN: Mr. Bigg, do you agree that we proceed? Mr. Baldwin has a question here.

Mr. BALDWIN: If I can precede my question by an observation, which might help Mr. Forbes as well.

If you go back to the British North America Act, which gives to the federal government the appointment and payment of judges but which says that the provinces may provide for laws with regard to a great number of matters, under that constitution these judges administer that provincial law and as such, to that extent, this is their statutory direction under the British North America Act.

Now, might I ask Mr. Driedger this question? The per diem allowance which you mentioned and which has been the subject of various changes throughout, while it might seem, at first blush, to be in contradiction to the rejection on any act of the right of the judge to receive any other remuneration, but the per diem allowance has, in fact, a statutory sanction. It is an artificial establishment of an amount which is deemed not to be remuneration but, in fact, out of pocket expenses. Would that be correct, Mr. Driedger?

Mr. DRIEDGER: I would put it this way. Whatever is provided by way of a per diem allowance is by section 39 an exception to the prohibition against receipt of remuneration, so that the question of whether the allowance is or is not or does or does not involve remuneration does not arise.

Mr. BALDWIN: No; it is given a statutory base.

Mr. DRIEDGER: Yes.

Mr. BIGG: It does not arise legally?

Mr. DRIEDGER: No. It may be a question of policy whether it should be this amount or that amount, but that is a question of policy and not of law.

Mr. BIGG: We deal with policy; we are not lawyers.

Mr. BALDWIN: Now, to go to the next step, the exception with regard to moving and transportation expenses is referred to, I think, in subsection (3).

Mr. DRIEDGER: Yes.

Mr. BALDWIN: You would agree, I think, that it is a well established principle that you have to interpret a statute by examining all parts of the statute: you must examine all of it in order to come to a rational and reasonable conclusion. You might not wish to answer the question I am going to ask you, because it may be a question of policy. Would you not agree that the principle which is sought to be established within the four corners of the Judges Act is that a judge should receive remuneration and is also entitled to receive out-of-pocket expenses for moving and transportation purposes, which can have an artificial amount ascribed to them. But the real intention of the Judges Act is that a judge should not receive anything other than moving and transportation expenses. Would you agree to that.

Mr. DRIEDGER: The act says such moving or transportation expenses and living allowance as may be fixed. I am not sure whether I understand your question. Are you suggesting that there should be read into that a limitation, "living allowance not exceeding actual expenses"? It is impossible to fix an allowance that might not, in some cases—

Mr. BALDWIN: No. Let us put it the other way, "a living allowance not including an element of remuneration."

Mr. DRIEDGER: I do not know if that is possible. Suppose, sir, I ask you what amount would you fix for attending in Ottawa, from outside of Ottawa, that would govern the particular case?

Mr. BALDWIN: The vouchers for the amount I actually spent out-of-pocket.

Mr. DRIEDGER: Then you are not fixing an allowance. You are simply reimbursing for expenses.

The CHAIRMAN: What is wrong with that?

Mr. DRIEDGER: The statute does not provide for that. It provides for fixing an allowance and you fix that allowance before the case begins. If you can pay only actual expenses, after they have been incurred on the basis of vouchers, you have not fixed any allowance.

Mr. BIGG: What I am trying to suggest is that the Judges Act quite rightly tried to put judges above the necessity for getting a handout. We are not paying them enough—perhaps we should pay them more—but we are trying to make them absolutely independent of the need for begging. It seems to me that the loop-hole in the act is no matter what subsection it is and whether it is legal or not that we have machinery here which makes it possible for the provinces to pay a man so well on these different commissions that he might be influenced not to be the soul of virtue. I would be very happy to say, give him the expenses plus 20 per cent to make sure there was no injustice involved. We would then know that that was a living allowance, out-of-pocket expenses, plus a reasonable amount. He may forget that he paid the taxi and so forth. There are many times when I have not been able to recover 25 cents here and there and I do not even try. But, on the other hand, if you allowed me to be on a commission some place for a year and to be paid \$100 a day—I do not see any relation between \$100 a day and the normal cost of staying in any city in Canada. It looks to me like a loophole under section 1 and perhaps, in principle, we would not think that we want that done. Perhaps some small change could be made so that we could give them reasonable out-of-pocket expenses plus 20 per cent, rather than leave it open.

Mr. DRIEDGER: I do not think there is any substantial difference between us. That is a question of policy, and what I was trying to explain was that, in my opinion at least, whatever is fixed as an allowance under that, is outside the prohibition of the act. That still raises the question of policy whether an allowance in a particular case or generally, is too large or too small and perhaps some change might be made in the section to prevent the kind of abuse that perhaps you are worried about. I would like to say a word, if I may, on an allowance of \$60 or \$100 a day. It is not too clear that that is excessive or is not excessive and I should like to give one or two examples.

If I have an allowance of \$60 per day and that is subject to income tax, I would net about \$32 a day. If you attend in Montreal or Toronto and go to a hotel, you may have to pay \$20 to \$25 for a hotel room, and when you add your meals and taxis on top of that, it is going to cost you more than \$32.

Mr. BIGG: Yes, but if he stayed a year, he would save a year's rent at home.

Mr. DRIEDGER: That is true. But I do not think anyone would suggest that judges should travel, attend and pay their own expenses.

Another case might be when a judge attends from far away for a considerable length of time. A couple of years ago, I was in Montreal at a convention to which I had taken a number of officers of my department. It was necessary to have briefing sessions and to have discussions after committee meetings and I needed a place where we could carry this on. I did not want to sit around on unmade beds, so I got the cheapest suite—if I can call it that—that I could get in the Queen Elizabeth Hotel, and they were simply two ordinary rooms with a connecting door. That cost me \$40 a day. If I had been on a \$100 a day allowance, which was taxable, I doubt that I would have been able to pay for my hotel room, meals and taxis.

Mr. BIGG: Perhaps what we should do then is simply make these living allowances tax free, regardless of the income bracket, I venture to say that some judges would be paying at the rate of 36 per cent and some would be paying at the rate of 50 per cent. Therefore, their living allowance would not be what it looks like on paper either; it is subject to the Income Tax Act, and then it would be unfair.

Mr. DRIEDGER: Perhaps I should add this also. In view of the many problems that have arisen and public comments and discussion on this provision, I certainly want to review it within the department in the light of all factors and circumstances to see if we cannot make some appropriate recommendation to my Minister and to the government that will perhaps solve some of these questions that have arisen.

The CHAIRMAN: Mr. Driedger, I cannot think of a better place to come than this Committee to get ideas.

Mr. SCHREYER: Mr. Chairman, I listened carefully to Mr. Driedger's explanation and I feel that I understand the problem that has been put to us. There is one aspect of this that I simply cannot understand and that is this. It would seem that because of the provision of subsection 3 of section 38 or 39 of the Judges Act, it is permissible for the government to provide an allowance that does, in fact, contain an element of remuneration. This seems to be the practice of policy currently obtaining. In fact, an allowance is paid that does contain an element of remuneration, and there is nothing in that practice which violates the statute. We had the Minister of Justice telling this Committee back in 1964, that an allowance of \$100 a day was not containing an element of remuneration and I think that strains the credibility or credulity. After all, even in New York City, the per diem allowance of \$100 a day would be more than adequate to cover a living allowance. I understand, according to information provided on the next page of the 1965 report, that remissions from income tax were granted. And in any case, the \$100 per day allowance apparently is further supplemented by actual out-of-pocket transportation expenses, so it is difficult to understand this.

Mr. DRIEDGER: So far as I know, the normal allowance is \$60 a day. There was one case where an allowance of \$100 a day was being paid. The impression seems to be that \$100 a day is the normal allowance. That is not my information. I understand that the normal allowance is \$60 a day.

Mr. BIGG: Well, there is no statutory limit on the amount to be paid.

Mr. DRIEDGER: Oh, no, there is not; that is a matter of policy. I think the view that the Minister of Justice too was, not that it did not involve an element

of remuneration but it was doubtful whether, in some cases, there might not be something left over.

Mr. SCHREYER: On this \$60 a day allowance or \$100 a day allowance, whichever the case may be, are commissioners not required to pay out of that for any secretarial assistance? Is that paid for quite separately?

Mr. DRIEDGER: I do not know. I have never been with a judge on these occasions; I do not know how he does that.

The CHAIRMAN: That is a good question.

Mr. DRIEDGER: It may be that if it is a shipping inquiry the Department of Transport might supply stenographic services.

The CHAIRMAN: I would assume that this \$60 or \$100 a day is straight living expenses and would not include any secretarial help or anything like that.

Mr. DRIEDGER: Perhaps I could clarify this by referring to the letter written by a former minister of justice to the then chairman of this Committee. It is dated August 13, 1964. He says in this one sentence:

I note that the Committee is of the opinion that a living allowance of \$60 a day could be regarded as including an element of remuneration.

So he was speaking about a \$60 a day allowance.

Mr. SCHREYER: I would like to address one question to Mr. Henderson. I would like to ask him, in his investigation of this, if the legal opinion he sought in this regard tends to substantiate or confirm what Mr. Driedger has been telling us, that, in fact, there is no violation of statutory provision because of subsection (3).

The CHAIRMAN: Mr. Schreyer, that is just what I was going to say. We will have Mr. Forbes' question and then we will have Mr. Henderson summarize some of the observations that have been made. We will adjourn at 11.30 so that will give us 15 minutes.

Mr. FORBES: Mr. Chairman, I am still a little confused about the remuneration allowed judges. As you can readily understand, I am a little more hazy than usual due to the events of the last few days. Suppose the judge was appointed in Ontario. He would receive a salary of, we shall say, \$15,000 a year. Then the province of Manitoba required this judge to sit on a certain case in the province of Manitoba. In addition to his \$15,000 he would be paid another \$100 a day as expenses plus out-of-pocket expenses. Is this the position that we are in.

Mr. DRIEDGER: Perhaps I better make sure that I understand your question. As I understand it, you cited a case where a judge was appointed in Ontario and then he was asked to perform a duty for the government of Manitoba. I wonder if that is what you had in mind?

Mr. FORBES: Yes.

Mr. DRIEDGER: That would be impossible, sir, because he would not go to Manitoba; he would have to stay in Ontario to perform his judicial duties.

Mr. FORBES: All right, then, we will change it around. We will say that he was appointed in Manitoba at \$15,000 a year but if he sits on some particular case he gets \$100 a day salary plus expenses. Is that correct?

The CHAIRMAN: In the same province in which he had been appointed?

Mr. FORBES: Yes.

Mr. DRIEDGER: Well, yes. A judge receives his salary and under the Judges Act he is entitled to be paid a living allowance for attending as commissioner or arbitrator. That is under the Judges Act.

Mr. FORBES: Plus \$100 a day remuneration?

Mr. DRIEDGER: I am sorry; I do not know if it is \$100 a day. This is a figure that has been used a good deal. There was one instance that was cited, I believe, where there was \$100 a day. The normal allowance is \$60 a day.

Mr. FORBES: Well, why is he entitled to his salary plus \$60 a day as remuneration, plus out-of-pocket expenses?

Mr. DRIEDGER: Well, not his out-of-pocket expenses, only his travelling expenses to and from the place he performs the duty. He does not receive his \$60 a day plus his expenses there; his \$60 a day is to cover his expenses.

Mr. BIGG: Room rent and meals roughly.

Mr. FORBES: All right, I will put it this way. He is appointed to the province of Manitoba; his place of residence is in Winnipeg; and he goes to Dauphin, Manitoba, to conduct a case. While he is in Winnipeg carrying on his regular duties he receives \$15,000 a year, but because he is going to Dauphin, 200 miles distance, he receives an additional salary allowance of \$60 a day plus expenses.

Mr. DRIEDGER: I am sorry, sir, not plus expenses. He gets his moving or transportation expenses and a living allowance but he does not get a living allowance plus expenses.

Mr. FORBES: All right, thank you very much.

Mr. BIGG: Mr. Justice Rand of the Supreme Court of Canada moves around to different provinces. I do not know whether the provincial judges do or not. Suppose he is on a big labour dispute, for instance.

Mr. DRIEDGER: Justice Rand is not—

Mr. BIGG: No, I know, but let us not quibble about it. A supreme court judge moves out to British Columbia from Ottawa; it is possible for him to get under this act \$100 or maybe \$200 a day at the whim of the Lieutenant Governor in Council of British Columbia.

Mr. DRIEDGER: Well, we will come back to your point now.

Mr. BIGG: It is possible for a man to go away from his place of business and his usual job for an extended period of time and get up to \$100 a day, which leaves me in some doubt as to whether or not this is remuneration. Anything I have heard this morning dispells this.

Mr. DRIEDGER: Well, that is your apprehension that there could well be abuse of that provision. That is why I have said we are looking at it from all points of view because it does involve quite a number of problems. We will see if we cannot do something about it.

Mr. BIGG: It certainly bothers me.

The CHAIRMAN: We will now call on Mr. Henderson and I would like to call on Mr. Tassé after that. I am sorry that our time is moving on so quickly. Mr. Henderson, no doubt you will have some observations.

Mr. HENDERSON: Mr. Chairman, most of the cases we are discussing are judges who are appointed as arbitrators on conciliation boards on the recommendation of the Department of Labour and it is the Department of Labour which, I think, originally established the \$60 per day. Lately, this rate has been increased to \$100 and I may say that although there is only one case mentioned in my 1965 report, Mr. Gilhooly has our working papers here and there are several cases on these working papers where the rate is now \$100, not all necessarily the Department of Labour. They come on the recommendations of different departments in the government. I should like to make it clear that if the amount of the living allowance precisely equalled the price of three meals and the hotel room there would be no element of remuneration, and I should never have raised the point. But having established a living allowance which, as Mr. Driedger says, is taxable, then this problem arises, and our working papers and research into this prove conclusively the point I have made, namely, that it does appear to include an element of remuneration. What has baffled me about it is why they would not pay these particular judges exactly the way they pay the other judges, namely, out-of-pocket expenses, the same as they pay my expenses when I travel. Then, there would be no question of any element of remuneration at all and it would make it a lot simpler.

Now, to come to Mr. Schreyer's question. I submitted this case to my legal advisers and I have their legal opinion which wholly supports the position I have taken.

Mr. SCHREYER: So you would not concede to the contention that an allowance containing an element of remuneration is not in violation of the Judges Act.

Mr. HENDERSON: No, I do not, and neither do my legal advisers. They considered that the living allowance in these cases does contain an element of remuneration and the point is valid and properly made. I have a three page opinion on that point. The question now is—

Mr. BIGG: I believe you said that at present, under the law, it is legal though.

Mr. HENDERSON: That has been Mr. Driedger's contention right along in this matter. We have differed over the years, and it has been the subject of Committee recommendation. I think it would be very helpful to the Committee if we could be a little clearer on just what happens now. I mean, is any action likely to be taken, or what is to take place?

Mr. DRIEDGER: Well, I could perhaps state it this way. I may say this is not just my own opinion; I drafted that section back in 1946 when Mr. St. Laurent was the Minister of Justice. I know that the view that I am expressing is and has been the view of every minister of justice, and every deputy minister of justice since that time. Now, I do not myself feel that any amendment to that provision is indicated on the ground that because the allowance contains an element of remuneration, its receipt is contrary to the act. I do not think that any amendment is necessary on that ground. However, because of the discussion that has taken place and the other problems that have arisen under this provision, I think perhaps we should have a look at it to see if some change could not be made.

Now, on your point, Mr. Henderson, "why not pay out of pocket expenses", there is a little bit of history to this. There was a time when judges were not paid expenses, because it was considered that that might be an infringement of the principle of judicial independence, and therefore they were always paid an allowance, and were not paid expenses. And, until 1960, even for ordinary travelling, judges were not paid expenses; they were paid an allowance.

Mr. FORBES: Which could have exceeded the expenses.

Mr. DRIEDGER: Which could, and well did, in many cases, exceed expenses. But, that was consistent with the principle of judicial independence. But because that was unworkable we have changed that, changed it only in 1960. But at the time of this amendment in 1946, the principle embodied in the Judges Act then was that judges were paid an allowance for their expenses, and were not paid actual expenses as ordinary civil servants and so on. That is why the act of 1946 provided for payment of an allowance rather than actual expenses.

Mr. BIGG: Could you say why it did not work? Were the judges not happy with it?

Mr. DRIEDGER: For ordinary attendances? Well, it did not work for this reason, that \$15.00 a day was not enough to attend in Ottawa, but was far too much to attend in Charlottetown and Moose Jaw. And you could not have different allowances for different areas and different provinces; you had to fix one allowance for the whole country. And you could not fix an allowance that would pay the expenses of judges attending in the larger centres without giving a bonus, if you like, to the judges who attended in small towns and in less populated places. That was why we switched from the per diem to travelling allowance, and I may say not without some opposition from the judges themselves.

Mr. FORBES: Was this allowance subject to income tax?

Mr. DRIEDGER: No.

Mr. BIGG: Surely that one man who takes out this element that has a large income pays, or gets actually less allowance than the man who has a small income.

Mr. DRIEDGER: It is not a question of income sir. I remember, in those days—

Mr. BIGG: Net income.

Mr. DRIEDGER: —I got an account from a judge for attending a place in Saskatchewan, a small town, and his hotel bill and his meals for a whole day was \$4.50. The allowance then was \$8.00 a day.

Mr. SCHREYER: I have just one brief question, Mr. Chairman, to Mr. Driedger. You construe the term "living allowance", as used in subsection (iii), to mean, in effect, a remunerative allowance, do you not? You refuse to differentiate.

Mr. DRIEDGER: I do not add adjectives to it; it is just a living allowance.

Mr. SCHREYER: Well a living allowance Mr. Driedger in my mind means allowance sufficient to cover the actual cost of living and being at a particular place.

Mr. DRIEDGER: Yes.

Mr. SCHREYER: And if it contains more than that then it is more than a living allowance; it is one that is remunerative.

Mr. DRIEDGER: I do not know how you could fix an allowance that might not leave something over.

Mr. SCHREYER: Nevertheless, the terms used in the drafting of subsection (iii) are "living allowance" and I suppose—

Mr. DRIEDGER: I would not restrict it that way.

Mr. LEFEBVRE: Do you feel that there would be much objection to the judges being paid the actual cost of their out of town expenses, such as your officers or other officers of every government department are paid?

Mr. DRIEDGER: I do not know what the judges would feel; I have not taken it up with them. That is the way they are now being reimbursed for their ordinary judicial attendances.

Mr. LEFEBVRE: Well they are paid an amount of \$60.00 a day right now, which is taxable. Is that right?

Mr. HENDERSON: Only when they serve as arbitrators.

Mr. DRIEDGER: Not for their ordinary judicial attendances.

Mr. SCHREYER: And what about, Mr. Chairman, in the case of commissions of inquiry?

Mr. DRIEDGER: That is in the same position as an arbitrator. Section 39 deals with commission or arbitrators.

Mr. LEFEBVRE: Do you not think it would if you were paid all the time in the same way. If it works fine for all the other times, why would it not work all the time?

Mr. DRIEDGER: Well perhaps it would. That is why I said I want to have another look at this to consider the problems that have arisen.

The CHAIRMAN: One more question.

Mr. LEBLANC (*Laurier*): Mr. Driedger, you read part of the letter of August 13, 1964 from the Minister of Justice. The Auditor General went on to say that even if an element of remuneration was included, it was not right by the Judges Act. And he says that the allowance was subject to income tax. So I think that any allowance that they get now is subject to income tax according to that letter.

Mr. DRIEDGER: Yes, but if you go to the Income Tax Act you will find that an exception is a commissioner appointed under the Inquiries Act. I believe that is correct.

Mr. HENDERSON: I cannot just answer that specifically, Mr. Driedger. We had a case, as you will recall, concerning that. There may be an exception if they are appointed under the Inquiries Act.

Mr. DRIEDGER: Well, the governor in council has to make the appointment under the Inquiries Act.

Mr. LEFEBVRE: The income tax department feels that it is remuneration, but your department feels it is not?

Mr. DRIEDGER: No sir. I have not said that.

Mr. LEFEBVRE: Well, somebody said something. It says here that in his view it did not contain an element of remuneration. This is the Minister of Justice. But the income tax people claim it is, because they tax it, so somebody is wrong.

Mr. HENDERSON: May I just elaborate for a moment. I have here an Order in Council indicating how the board recommends that the income tax payable by—and they name the Judge—for the 1962 taxation year, be remitted to the extent that the tax payable by him would be increased if the living allowance of \$60.00 per day received by him in the 1962 taxation year while acting as chairman of the conciliation board, and so on. "Had the said appointment been made under the Inquiries Act". The point made by Mr. Driedger is correct, that it is within the power of the Governor in Council to exempt income tax under section 22 of the Financial Administration Act.

Mr. FORBES: Can I put one short question to Mr. Henderson? When you are auditing these judges' accounts do you do it on a basis of the vouchers they have turned in for expenses, then balance it out for the year, and any surplus over this is an element of remuneration?

Mr. HENDERSON: No, Mr. Forbes, it is impossible for us to determine the element of the remuneration in the individual cases, because that depends on the personal taxation position of the recipient in these cases, as has been explained—

Mr. BIGG: And his living habits.

Mr. HENDERSON: —the actual expenses he had and the rate of income tax that his taxable position attracts. We know, in a general way, what three meals and an hotel room would cost. Perhaps as Mr. Driedger said, it can run very close to \$60 a day; perhaps \$100 is not enough. But there is no doubt of the fact, based on our examination of other circumstances, that it does contain some element of remuneration. We have established that, and that is what is contrary to the Judges Act, in our opinion and that of my legal advisers.

Mr. BIGG: Except for the exceptions specifically stated in the act.

Mr. HENDERSON: Mr. Forbes was asking me if I knew specifically which judge might be in what position. Of course, I do not know that.

Mr. FORBES: If he ended up at the end of the year, say, with \$500 over and above his actual costs, this is added on his income tax return.

Mr. HENDERSON: He has to justify the expenses he claims to the tax department. A man getting \$100 a day while substantially performing his duties at his place of residence, presumably would not be able to put in any hotel bills because he was claiming that living at home. Presumably he would pay a good deal of that back in income tax unless under section 22 he was relieved of having to pay it. I read you the case of one of the judges and there are others who have been able to secure relief under this section for the reasons I have outlined.

The CHAIRMAN: Gentlemen, we have had quite a discussion. You should feel highly honoured at being the jury this morning, with two legal opinions presented to you, and the judge is before us. As Mr. Driedger has said, he is going to review this again and give it more thought. I am sure he has picked up a few points of view here this morning. Mr. Henderson will be reviewing it again with us. I think we will let the matter rest at this point.

Now, I know some of you are most anxious to get away but I do feel we should hear Mr. Tassé. It will only take five or ten minutes, Mr. Henderson, to very briefly go over this. I want to hear a word from Mr. Tassé. He has been good enough to come and sit all this time.

Mr. HENDERSON: The note is number 69 on page 40 and at the top of page 41 of my 1965 report, which reads as follows:

69. *Federal losses from bankruptcies.* Our 1962 Report drew attention to the increased cost of supervision of bankruptcies caused by the disclosure of irregularities in the administration of estates by a number of trustees in bankruptcy and to the increase in the rate of levy on estates that had been introduced to meet the additional expenses.

In October 1964 the Province of Quebec appointed a commission of inquiry to determine the effect on the revenue of the Province of bankruptcies occurring between November 1, 1959 and November 1, 1964. The report of the commission, which was submitted on July 30, 1965, estimated that the Province had lost approximately \$5.5 million in revenue during the period as a result of bankruptcies and stated that "fraud and dishonesty in one way or another penetrated deeply into a large portion of bankruptcies and liquidations". The commission recommended, among other things, changes in the Bankruptcy Act, R.S., c.14, and in the administration of bankruptcy, including the establishment of a "permanent inquiry service" either under section 3(5) of the Bankruptcy Act which provides that:

The Superintendent may engage such accountants or other persons as he may deem advisable to conduct any inspection or investigation...

or under some other legislative provision.

No amount has yet been established to indicate the extent to which federal revenue has been lost as a result of these irregularities.

It is a problem with which most of the members are probably familiar because the situation has been covered in the press. The point of my concern is contained in the very last paragraph because it deals with revenue of the Crown. If it appears there is a loss of this I institute inquiries and follow it up to the best of my ability. Now in the last paragraph I state that no amount has yet been established to indicate the extent to which federal revenue is being lost as a result of these irregularities. Obviously, it must have been a considerable figure, based on the reports issued by this commission in the Province of Quebec. When I say a considerable figure I mean in terms of losses of income tax revenue, customs revenue, excise and all the other areas. But, we do not know how much. Perhaps Mr. Tassé in his explanation could furnish something on this.

Mr. R. TASSÉ (*Superintendent of Bankruptcy*): Do I understand Mr. Chairman that I am allowed about five minutes to answer?

The CHAIRMAN: Well I know it is most unfair. Would you like to give just an oral run down of it. Would that be asking too much?

Mr. TASSÉ: I had prepared a full statement because I think this is a very important question. Also I would like to comment on Mr. Mercier's report because there were conclusions that were drawn from statements contained in

this report which I think have to be explained. I would consider it unfair for me to try to answer or comment on the Auditor General's report in five minutes.

The CHAIRMAN: Would you like to read that brief?

Mr. TASSÉ: I had prepared notes which I thought might be helpful to the committee, if I am allowed the time. It will only take about half an hour.

The CHAIRMAN: What is the wish of the committee?

Mr. BALDWIN: I wonder, Mr. Chairman, if Mr. Tassé could make a brief comment with respect to what Mr. Henderson said—I do not mean to be impolite—and then he could file with the committee, to be added to the proceedings, an extension of those comments and the committee would have an opportunity to examine them when the transcript comes out. We have been delinquent in this; we have taken more time than we might have but we had to do this. Mr. Tassé might be prepared, after we have had a chance to read his written comments that are attached to the proceedings, if we saw fit and he was available, to come back at some future time when we could deal with this as the first order of business.

The CHAIRMAN: Is that agreeable?

Mr. TASSÉ: I think I could file my written statement, and confine myself to some parts which deal specifically with losses generally which might result from irregularities.

The CHAIRMAN: Is it agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: You may proceed then.

Mr. TASSÉ: There are three areas in which we have in the past gathered or collected statistics. I have prepared three tables. The first one deals with bankruptcies reported under the general provisions of the act; the second deals with bankruptcies reported under the summary provisions of the act, and the third deals with the proposals that have been ratified under the relevant provisions of the act. Each table shows the number of cases and the total amount of liabilities in thousands of dollars as declared by debtors. Reading these tables we find the total number of bankruptcies for the year 1965 was 5,023; in 1964 the number was 5,562 and in 1963, 5,189. The total liabilities as reported by debtors for 1965 was \$267,903,000; for 1964, \$210,856,000; and for 1963, \$301,273,000. These figures do not represent the losses suffered by creditors from bankruptcies. They represent the total liabilities as declared by debtors. To get the amount of the losses we have to deduct from the liabilities the dividends received or the recovery made by the secured creditors as well as the dividends paid to unsecured creditors. From an analysis made of estates closed during the years 1963, 1964 and 1965, we estimate that for each dollar of liabilities declared by debtors secured creditors would recover 22 cents, preferred creditors 3 cents and unsecured creditors 10 cents. As a result, for each dollar of liability declared by debtors the total amount lost to creditors would be around 65 cents. If we apply these percentages to the 1965 figures, we come to an estimated loss to the creditors for the year 1965 of approximately \$175 millions. It must be appreciated that this figure is a very rough estimate. It does not include either cases of insolvency coming under the Winding-up Act—according to the Dominion Bureau of Statistics there

were 47 such cases in 1965 with total liabilities of about \$4 million—and it does not include insolvency cases such as Atlantic Acceptance, which do not come under either the Bankruptcy Act or the Winding-up Act and which were put into receivership at the request of bondholders. We do not know how much out of this amount would represent losses to the federal government or the Department of National Revenue. Such information would have to come from the creditor department concerned, if it is available. We do not know what is the amount of the losses resulting from irregularities on the part of bankrupts or trustees. In so far as bankrupts are concerned, the difficulties involved in the collection of statistics on losses attributable to perversions of the bankruptcy process would, in my view, be almost insurmountable for a number of reasons. The first reason is the division of responsibility in this area of criminal law enforcement. An investigation into a suspected irregularity or offence on the part of a bankrupt prior to his bankruptcy may be made by the local police, the provincial police, the RCMP or the bankruptcy branch. All these agencies may be involved in this type of investigation. You will appreciate that statistics in this area, to be of any value, would have to be standardized and their collection co-ordinated in order to avoid duplication. No attempt has yet been made, to my knowledge, to collect such statistics. The second difficulty stems from the fact that many of these cases of irregularities are most intricate and sophisticated and that it is not always possible to gather sufficient evidence to support a conviction for fraud. Of course, it is possible that in such cases other charges, for perjury, false statement under oath, failure to keep proper books of accounting, for example, can be laid. But in such cases how would the amount of the losses resulting from the suspected fraud be estimated? Another difficulty is that for the purpose of the criminal prosecution, the amount involved by itself is not of too much importance. Whether the fraud is for \$50,000 or \$70,000 does not matter too much. The objective of the prosecution is to establish whether there was a fraud with some degree of certainty as to the amount involved, but not to establish, with precision, the total losses to all creditors from all the irregularities possible. To establish this, would, in most cases, have no real purpose.

In so far as trustees are concerned, they are required by the act, as you know, to file with the bankruptcy branch a general security for the due and faithful performance of their duties. New requirements in that respect have recently been approved regarding both the form and the amount of these securities. Trustees may also, whenever they are appointed to handle an estate, be required by the official receiver to file another security in a form and in an amount determined by the official receiver. These securities afford, in most cases, adequate protection to creditors in case of misappropriation of funds or other negligence on the part of a trustee to the estate. We have no statistics at present in the branch showing the amount claimed from trustees personally or their bonding company or the amount paid by the bonding company on behalf of trustees or former trustees. We are presently reviewing our whole approach to statistics collection and we will carefully consider the possibility and feasibility of gathering statistics data in this area for the future.

The CHAIRMAN: Are there any questions?

Mr. LEFEBVRE: I have just one question. From your experience, Mr. Tassé, do bankruptcies occur more often in the first year or two of a business. Do you have these figures?

Mr. TASSÉ: I think I will let Mr. Finlayson answer that.

Mr. I. FINLAYSON (*Assistant Superintendent of Bankruptcy*): We have the length of life of the business as one of the statistics as from 1966.

Mr. LEFEBVRE: Do you have any rough idea whether the great percentage of bankruptcies occur in the first or second year of business?

Mr. FINLAYSON: There are a substantial number in the first five years.

Mr. BIGG: Does this not vary greatly with the different businesses. Restaurants and so forth would be different to financial institutions, for a good reason.

Mr. FINLAYSON: Oh yes.

Mr. BIGG: There is less security involved.

Mr. FINLAYSON: Yes, service businesses such as restaurants and construction firms.

The CHAIRMAN: I have a question I would like to ask. There seems, in some cases, to be great delay in appointing trustees of bankruptcy. Is there any reason for that?

Mr. TASSÉ: This is a problem that we have with some of our trustees and for one reason or another there were delays in the past. We are trying to put some pressure on the trustees to wind-up their estates when possible, when there are no special problems of administration.

The CHAIRMAN: Is it the responsibility of your office to appoint the trustees?

Mr. TASSÉ: The appointment of the trustee is in the hands of the official receivers and the courts when there is a receiving order granted.

Mr. BALDWIN: I have one question. In many of the statutes, which provide for the imposition of taxes and levies and so on in some cases a preferred position is given to the Crown in connection with bankruptcies. Am I not right in that?

Mr. TASSÉ: There is a provision, Mr. Baldwin, in the Bankruptcy Act itself giving a preferred position to the Crown.

Mr. BALDWIN: This, of course, would involve the active intervention and a careful and anxious study of the department concerned to make sure that they move in and exercise their preference. Is there a liaison between your department and the various government departments involved to see that the Crown's preferred position is, in fact, established and carried through?

Mr. TASSÉ: The establishment of the preferred position is, of course—

Mr. BALDWIN: Automatic?

Mr. TASSÉ: Absolutely in the hands of the department concerned and is the responsibility of the department concerned. Of course, one of the largest creditors is the Department of National Revenue. I understand they have their own staff looking after this. They have their own legal section.

Mr. BALDWIN: They are not laggards when collecting?

Mr. TASSÉ: I cannot comment on that.

(Translation)

Mr. LEBLANC (*Laurier*): The Auditor General has mentioned the Mercier Commission in Quebec. According to its findings, is it possible to determine approximately what are the losses suffered by the Government as a Government as against the losses suffered by the creditors? I believe that the main purpose of the Auditor General's observation was to point to the fact that in the Province of Quebec the Mercier Commission established losses to the extent of \$5,500,000 whereas we in Ottawa, for some reason have not been able to establish such figures.

Mr. TASSÉ: It is possible for the departments involved to establish the amounts of their losses, but I wanted to point out that it is not up to us to establish such amounts. Our office is charged rather with the responsibility of seeing that the provisions of the Bankruptcy Act apply to all those involved. It is possible that some departments are creditors, and these departments might possibly have that information on their files. It is possible that these departments, as I say, have the information concerning losses suffered by the Government.

Mr. LEBLANC: Would it be necessary according to you to set up a Commission such as was set up in Quebec to deal with that matter?

Mr. TASSÉ: If I had had the opportunity of reading my notes into your record, you would have had the answer to that question, but you probably will have an opportunity to look at them since I will leave them with the Chairman.

Mr. LEBLANC: Very well.

(English)

The CHAIRMAN: Mr. Tassé, the figures you gave on the number of bankruptcies for the last three years did not show a tremendous variation or great increase from year to year; they were fairly consistent. But the increased cost of supervision of bankruptcies, I think, is what this committee is interested in. Why has your cost of supervision gone up when these bankruptcies have not apparently made the same advance? Perhaps we should ask the Auditor General that question. If you would like to make an observation, do so; then we will ask the Auditor General.

Mr. TASSÉ: Mr. Chairman, I think you will see from reading my notes that we recently have taken substantial and very important steps to change our whole approach to the problem of bankruptcies. We will be much more active and aggressive in the field of bankruptcy administration, both before and after the bankruptcy. Although this is new and, of course, will cost money, I feel that this is money well spent because not only will we expect the administration of these estates to improve but it will also enhance the general climate of business and commercial affairs.

The CHAIRMAN: We would say the money would be well spent if you could show that X number of dollars had gone into the national treasury that otherwise was not going in there. Will this be forthcoming?

Mr. TASSÉ: This will be difficult because I do not think we can appreciate in a monetary way the beneficial effect that could result from the different steps that we are taking—for example, the establishment of local offices in Montreal, Toronto and Vancouver. We will have a closer look at these estates. Although I

hope that this will show up in the statistics, it may be that it will not because of other factors that are out of our control.

Mr. BIGG: Are you suggesting that because you will be able to move in faster with a larger staff, you will be able to freeze funds that may go across the border, and that this differential between 35 cents and 65 cents might change to between 30 cents and 70 cents, or something of that nature?

Mr. TASSÉ: I would be glad, but very surprised that it would change and be up to 70 per cent. How the measures that we are taking now will affect these statistics, I cannot tell, because there are other factors that we have to take into account. I would hope this would show up in our statistics.

Mr. BIGG: I was not asking you for a guarantee that this would occur; I just wanted to know whether the situation would improve.

(Translation)

Mr. LEBLANC (*Laurier*): What about the recommendations of the judges and of all the people who are called upon to deal with bankruptcies in the towns you have mentioned, Toronto, Montreal and Vancouver? Has there ever been any pressure to the effect that they should appoint people under the Superintendent of Bankruptcies, but established locally?

Mr. TASSÉ: I am not sure I have understood your question properly. However, I might say at this point, that with the beginning of January, that is the beginning of next year, we will have an office in Montreal, one in Vancouver and one in Toronto, including a regional director along with investigators and accountants.

Mr. LEBLANC (*Laurier*): But this move comes because of pressures from judges and of public opinion. You have had to take these steps which of course would be more expensive for the Government of Canada?

Mr. TASSÉ: The way these decisions are taken are not matters within my competence. I do not think I should be asked to elaborate on that. However, we have studied the matter and we have come to the conclusion that the best way to deal with them was to decentralize our operations and to have investigators in the field under the Head Office in Ottawa and trained for the purposes required, and over which we would have control.

(English)

The CHAIRMAN: Mr. Tassé, this would explain some of your increased costs. Mr. Henderson, why did you bring this to the attention of the Committee? Did you feel it was getting out of bounds?

Mr. HENDERSON: I felt that the significance of the Mercier report was such that my first approach should be to try to find out how much federal revenue might have been lost as a result of this. I was very interested in a question which Mr. Leblanc put to Mr. Tassé. However, I appreciate the reasons Mr. Tassé has given for this, and I must compliment him on the study that he has brought to the problem.

The cost of supervision has been going up in his office. It was first brought up in my 1964 report. At that time the staff was about 16; at the end of 1965 we noticed it was 18; at the end of 1966 it had risen to 31, and I believe the present establishment is about 69.

Mr. TASSÉ: That is correct.

Mr. HENDERSON: I think the reason for this is the opening of their regional offices in Toronto, Montreal and Vancouver, and the increased work that is entailed in the new legislation.

I do not have any more comments, Mr. Chairman, I think that sums it up. The statement Mr. Tassé is going to put in the Minutes of Proceedings and Evidence should be read and studied, and if you have any further questions, perhaps Mr. Tassé could be invited back to continue the discussion.

Mr. BIGG: Mr. Tassé, is it a fair question to ask if there is any way that we, as legislators, can help? You must know where there are loopholes in the act. For instance, I would suggest that in all businesses some accounting should be made of what they consider their liquid position to be from year to year. Say, if he transferred the main assets of the business to his wife three years ago, there should be recoveries for these false declarations, and we might get 10 cents on the dollar more by recovering the money which has been put into his wife's bank account.

Mr. TASSÉ: Yes, there are provisions for this type of situation.

Mr. BIGG: But in your opinion, are they satisfactory?

Mr. TASSÉ: I might add that there is a committee working on a company provision of the Bankruptcy Act. We are looking into this type of situation.

The CHAIRMAN: Gentlemen, just before we adjourn, I remind you that on Tuesday morning we will have Mr. Kent, Deputy Minister of Manpower, and Colonel Fortier from the Unemployment Insurance Commission, with some interesting subjects.

Thank you for your wonderful attendance.

APPENDIX 13

Jacques Cartier Bridge, Montreal—Financial & Operating Statistics Years 1957-8 & 1960-1

Year	Bridge Tolls collected	Passengers in Vehicles	Automobiles (passenger)	Trucks	Buses	All Other
1957.....	\$ 2,201,338	13,621,014	9,593,114	1,182,460	123,870	127,450
1958.....	2,078,767	12,474,977	9,810,181	1,054,501	121,688	126,288
(Automatic toll collecting equipment operative September 8, 1959)						
				Trucks & Buses	Buses (Special Agreement Rates)	
1960.....	3,298,362	—*	13,796,027	2,284,862	357,983	
1961.....	3,435,657	—*	14,681,986	2,317,917	344,083	

*No charge for passengers in vehicles from 1 April 1959.

APPENDIX 14

OTTAWA, July 21, 1966

Mr. Alfred D. Hales,
Chairman,
Standing Committee on Public Accounts,
Room 549S,
House of Commons,
Ottawa.

Dear Mr. Hales:

When I appeared before your Committee on June 16, 1966, I gave an approximate figure of \$10,000 as a cost estimate respecting the preparation of the listings of travelling expenses of employees in excess of \$1,000 and payments to suppliers and contractors in excess of \$100,000, which I handed to you that day.

At your meeting on June 28, I am advised that the Committee requested a report from me on how I arrived at the cost of \$10,000. This figure was quoted on an overall appraisal by my headquarters staff as their opinion of minimum costs. I subsequently requested my Chief Treasury Officers to supply me with their estimates of the costs for the preparation of these lists, and, from their replies, I find that the estimate of \$10,000 considerably under-stated the overall cost. Estimated costs as submitted by my Chief Treasury Officers amount to \$26,-299.42.

I am attaching a breakdown of these costs by Treasury Office, as requested by the Committee.

I hope that this information will assist the Committee in deciding if it wishes my office to continue to prepare these listings for its information. As I indicated on June 16, I shall be happy to provide this information if this is the Committee's wish.

Yours sincerely,

H. R. Balls,
Comptroller of the Treasury.

BREAKDOWN COSTS IN PREPARATION OF TRAVELLING EXPENSES
IN EXCESS OF \$1,000 AND CONTRACTORS AND SUPPLIERS OVER \$100,000

Treasury Office	Employees	Hours	Salary Costs	Data Processing	Supplies	Grand Total
Agriculture.....	10	911½	1,851.19			1,851.19
Citizenship and Immigration.....	33	305	602.64		10.00	612.64
External Affairs.....	17	310	635.67			635.67
Finance.....	9	344	707.93		3.15	711.08
Fisheries.....	5	140	296.20			296.20
Forestry.....	8	54½	116.54			116.54
Insurance.....	2	3	6.16			6.16
Justice.....	2	706	1,616.98			1,616.98
Legislation—House of Commons.....	1	7½	25.00			25.00
Mines and Technical Surveys.....	12	123½	463.36			463.36
National Defence.....	16	1,365	2,189.50	2,039.96	9.50	4,238.96
National Film Board.....	5	35½	85.81		4.00	89.81
National Health and Welfare.....	11	163	372.16			372.16
National Research Council.....	3	105	197.00			197.00
National Revenue.....	6	82½	179.02			179.02
Northern Affairs and National Resources.....	8	137	297.32			297.32
Post Office.....	5	57	128.70		5.30	134.00
Public Printing and Stationery...	4	47	82.50		2.00	84.50
Public Works.....	4	155	316.20	1,861.00		2,177.20
Royal Canadian Mounted Police.....	10	161½	348.08			348.08
Trade and Commerce.....	8	354	782.39		5.00	787.39
Transport.....	15	1,356	2,683.68			2,683.68
Unemployment Insurance Commission.....	1	15½	38.27			38.27
Veterans Affairs.....	10	56	126.35	40.00	9.00	175.35
Regional and District Treasury Offices.....	189	2,852	6,711.26		279.00	6,990.26
Headquarters—Public Accounts Division.....	3	360	1,151.60		20.00	1,171.60
	397	10,207	\$ 22,011.51	\$ 3,940.96	\$ 346.95	\$ 26,299.42

APPENDIX 15

PUBLIC ACCOUNTS COMMITTEE OF THE HOUSE OF COMMONS

Mr. Chairman:—

I would like, at the very outset, to say a few words about the Mercier Report itself which is referred to by the Auditor General.

Mr. Mercier was appointed by the Quebec Government, on *October 16, 1964*, (Order in Council No. 1977) as a Commission to inquire into the bankruptcies and liquidations that had occurred in the Province of Quebec between November 1st, 1959 and November 1st, 1964, for the purpose, generally speaking, of studying the relations between the Department of Revenue and the trustees and establishing whether the Department had received payment of all the money that, under the law, it was entitled to receive in estates in bankruptcy.

On February 2nd, 1965, the terms of reference of the Commission were amended and it was empowered to examine anything regarding bankruptcies that might adversely affect the interests and rights of the Department of Revenue, as well as to examine any kind of transactions that had occurred before or after the bankruptcy and involving debtors, trustees, agents of debtors, etc.

The terms of reference of the Commission were also altered to cover the period from January 1st, 1959 to February 1st, 1965.

The Mercier Report, which bears the date *July 30, 1965*, finds that, according to the figures supplied by the Department of Revenue, the direct losses to that department from bankruptcies for the years 1960 to 1964, inclusive, totalled the sum of 4.4 millions. To this amount, the Commission adds another million dollars which is an estimate of the losses suffered by the Department for personal and corporation income taxes for the same period. The total losses to the Department of Revenue for the period 1959 to 1964 was thus estimated by the Mercier Commission to be approximately 5.5 millions.

I would like, here, to point out that the report does not state, as it has been reported by some at the time of its publication, that the Government of the Province of Quebec had lost more than 5.5 millions of dollars as a result of fraudulent bankruptcies during the years in question. The Commissioner does refer, at some length, later in his report, to irregularities on the part of trustees and others that would, to use the words of the Commissioner, have been established before the Commission but nowhere in his report does Mr. Mercier attempt to ascertain what amount could have been lost to the Government of the Province of Quebec as a result of these irregularities.

Most of the Mercier Report (10 pages out of 28 pages in all) is a description of the abuses of the bankruptcy process that, the Commission claims, have been established before it. I would like, at this point, to deal specifically with two of the main areas covered by the report.

The first of these areas has to do with the period that precedes the bankruptcy, often referred to as the pre-bankruptcy area. The report in that respect states that the Commission has found that many bankrupts have, in the period preceding their bankruptcy, been guilty, among other things, of frauds, to the prejudice of their creditors. It also refers to fraudulent bankruptcy rings, the operations of which would have been established before the Commission.

The expression "fraudulent bankruptcies" is often used to refer to these frauds that are committed by bankrupts prior to their bankruptcy and which are described by Mr. Mercier in his report. The expression is vague and may be interpreted to refer to any of a wide variety of situations. Perhaps the most common is where persons obtain large inventories on credit with the intention of liquidating them rapidly for cash and not paying their creditors. In such a situation, bankruptcy is the natural outcome, either at the instance of the insolvent persons, through the means of an assignment, or at the instance of their creditors, through the means of a receiving order. These situations are also referred to as "planned bankruptcies".

Another situation is when a debtor, seeing that his financial situation is desperate, takes steps to salvage some or all of his assets for his own personal benefit to the detriment of his creditors. This may be arranged through transfers of assets in favour of nominees or relatives of the bankrupt for the benefit of the latter.

The Commissioner refers to these frauds and other criminal offences on the part of bankrupts as having been established before it. I must say, however, that although the report must obviously have been sent to the Department of the Attorney General for the Province of Quebec, I do not know of any criminal prosecution that has been initiated as a result of the findings of the Mercier Report. It is possible that the Commissioner referred, in his report, to cases which were, at the time, under investigation by the Department of the Attorney General of the Province of Quebec, these offences as a rule, coming squarely under the Criminal Code.

Subject to what I have just said about the Mercier Report, in that respect, I wish to point out that the detection and eradication of the perversions of the Bankruptcy Act that I have just referred to—and which by any means are not of recent import—constitute one of the important problems that we have to face nowadays in the field of bankruptcies. This is a problem that has attracted attention some years ago and at the time of the publication of the Mercier Report, in August 1965, some offenders were already behind the bars and many awaiting their trials.

The administrative and legislative arrangements were not, however, entirely satisfactory to deal with that type of situations and I would like here to take a few moments to explain the various steps that have been taken to improve the situation.

Our Bankruptcy Act—and our legislation is not in that respect any different from that of other countries—is predicated on the principle of "creditor control". This means, among other things, that under our Bankruptcy Act, at least up until the recent amendments that were approved by Parliament, the prime responsibility for detecting and eradicating irregularities on the part of bankrupts was that of the creditors for whose benefit estates in bankruptcy are administered by trustees. It was felt that the collective execution that is affected by the bankruptcy process—that is the collection and distribution of the debtor's assets—benefits the creditors and the theory behind the principle of "creditor control" is that the creditors have a prime interest of their own, firstly, in scrutinizing the affairs of the bankrupt in order to ascertain whether he has been guilty of any wrongdoing, and secondly, in aggressively going after and collecting the assets of the debtor for distribution amongst the creditors. In serving their own interest, it

was believed that the creditors would expose frauds and other offences on the part of debtors and, by the same token, serve the public good. The Bankruptcy Act gives the trustees and the creditors extensive power of examination and search for that purpose (Sections 121 and following).

It must be appreciated, however, that before a trustee would become involved in any extensive investigations or inquiries into the bankrupt's affairs, he will have to obtain the creditors' approval as well as, in some cases, their financial assistance. Experience has shown that, in too many cases, however, the estate does not have sufficient funds to enable the trustee to carry out the necessary investigations or inquiries and the creditors are not prepared to provide the trustee with the necessary financial assistance. This attitude on the part of creditors is quite understandable. Why should they get involved, through the trustee in bankruptcy, in some times prolonged, complexed and costly investigations. After all, most of these creditors have, in establishing the cost of their goods or services, included an item for uncollectible or bad debts. They are also allowed to deduct, for personal or corporation income tax purposes, their losses on account of bad debts. I would not believe that it would be reasonable to expect creditors to invest money in a venture, the outcome of which is often most doubtful, when they can put it into more profitable uses and generate new businesses. We cannot blame them for their unwillingness to put good money after bad.

While this attitude is quite understandable on the part of creditors who as individuals are primarily concerned with minimizing their own losses, it obviously does not meet the long-term and public requirements of the detecting and eradicating irregularities.

Since these frauds or so-called fraudulent bankruptcies in most cases involve offences under the Criminal Code, the provincial authorities are responsible for their investigation and their prosecution in the course of the ordinary administration of criminal justice. Experience, however, has shown that there was a serious problem area comprising cases where there was some reason to suspect irregularities on the part of debtors but the creditors, on the one hand, were not prepared to undertake the expenses of making an investigation and the provincial Crown Prosecutor, on the other hand, did not feel that the suspicion of misconduct was strong enough to bring him into the case at the present stage. This is an area where experience has indicated that the principle of "creditor control" is not working effectively.

This is a problem that was discussed at the Conference of the Attorneys General that was held in Ottawa in January of 1966 and the Federal Government informed the Provincial Authorities that it was prepared to take the necessary steps, by way of amendment to the Bankruptcy Act and otherwise, to enable the Superintendent to conduct investigations in this problem area and carry them to the point where suspicion of irregularities is either dispelled or brought to a degree of concreteness where the Crown Prosecutor or local police may be expected to interest themselves in the case. The provinces have agreed, on their part, to take up the investigation and the prosecution in all cases where the evidence, originally or as a result of investigation instigated by the Superintendent, will so warrant.

Bill S-17, An Act to amend the Bankruptcy Act, which was assented to on July 11, 1966, does substantially extend the powers of investigation of the

Superintendent of Bankruptcy and enable him to make investigations into the problem area which I have just referred to. These new powers are found in Sections 3A and B of the Bankruptcy Act.

Important structural changes in the office of the Superintendent have likewise been approved by the Government to provide for teams of investigators and auditors that will be charged with the task of carrying through the intent and purpose of these amendments. The skeleton offices already in operation in Montreal and Toronto have been substantially increased and a new office will very shortly be opened in Vancouver. The Montreal office will comprise a regional director, eight auditors and three investigators. The Toronto office, one regional director, seven auditors and two investigators and the Vancouver office, one regional director, three auditors and one investigator. The Toronto office will be responsible for the Province of Ontario, the Montreal office for the Province of Quebec and the Maritime Provinces and the Vancouver office for the four western provinces.

Two new positions of Assistant Superintendent, auditing and law, have also been approved for the head office.

While, in 1960, the establishment of the Bankruptcy Branch comprised in all, eleven positions, this was increased to sixteen in 1964, twenty in 1965 and it presently stands at sixty-nine.

The Civil Service Commission is presently holding a number of competitions with a view to filling the newly created positions and it is expected that the regional offices, as expanded, will be in operation some time early next year.

The main responsibility of the regional offices will be twofold:—

1. To implement a periodic and systematic audit of all trustees in bankruptcy, a function that has hitherto been performed by the Audit Services Branch of the Comptroller of the Treasury of the Department of Finance and to investigate all matters relating to trustees.
2. To investigate all complaints regarding suspected offences by bankrupts and others under the Bankruptcy Act or any other statute of the Parliament of Canada that may be connected with a bankruptcy.

While in the years past, the commenting upon the trustees' statement of receipts and disbursements concerning their administration of individual estates, was the main responsibility of the office of the Superintendent of Bankruptcy, the re-organization that is taking place at head office and at the local level, will allow the Superintendent's office to play a much more active and aggressive role in the field of bankruptcy administration as well as in the detection and eradication of irregularities connected with bankruptcies.

The second area covered by the Mercier report has to do with trustees. It contains allegations of serious irregularities against some trustees, some of them being tantamount to criminal offences. Immediately after the publication of the Mercier Report, I was in touch with Mr. Mercier himself, in an attempt to obtain communication of the evidence that had been laid before the Commission and which, as was claimed by Mr. Mercier, had established that trustees had been guilty of the irregularities and offences described in the report. A procedure was devised and agreed upon by Mr. Mercier and myself whereby my office was to be provided with any such evidence. Seeing, however, that such evidence was not forthcoming, I appointed a Montreal solicitor to examine Mr. Mercier's files

in order to get the evidence substantiating the allegations that had been made in his report. After having examined what were, in Mr. Mercier's estimation, the most cogent files, this solicitor has reported to me that he has not found, in the files that he has examined, any evidence that would in its present state be sufficient to warrant the initiating of criminal proceedings or even the taking of disciplinary sanctions against any trustee. The files of Mr. Mercier, however, raise a number of questions that need to be investigated and this is presently being done.

I might add that we have found that Mr. Mercier has referred, in his report, to irregularities on the part of trustees that, at the time of his report, either had been investigated and acted upon or were under investigation. I am especially thinking of two trustees whose performance would be well fitted for some of the allegations described in the report. These two trustees were prosecuted on the strength of the findings of our own investigation, one of them has been sentenced to two years of imprisonment in June last and the other is awaiting his trial.

This means, in other words, that while Mr. Mercier is, to some extent, correct when he refers, in his report, to irregularities that would have been committed by trustees, he has not, as one might be lead to believe from a cursory reading of his report, gathered evidence establishing the allegations made in his report. It must be appreciated that—and I believe that Mr. Mercier himself would agree with this—it was not the purpose of Mr. Mercier's Commission to establish the guilt of trustees and others that had committed irregularities or offences of a criminal nature. The purpose of the Commission was to ascertain the amount of money lost to the Department of Revenue of the Province of Quebec as a result of bankruptcies.

This leads me to the next question that I would like to deal with.

One of the most difficult problems that we have to face in the field of bankruptcy administration is the problem of undesirable trustees.

The cornerstone of our bankruptcy administration system is, as you know, the trustee. Amongst the various officials and persons connected with bankruptcy administration, he is certainly, insofar as the day-to-day administration of an estate is concerned, the most powerful and important.

Before 1932, there was no requirement in the Bankruptcy Act as to the licensing of trustees. However, as a result of complaints received by the government and of abuses that had been uncovered, Parliament amended the Bankruptcy Act in that year to provide for a system of licensed trustees that we still have nowadays and to create the office of the Superintendent of Bankruptcy to supervise the administration by trustees of all estates in bankruptcy.

The 1949 revision of the Bankruptcy Act did not, in that respect, alter the law.

Other abuses were reported in the late fifties that led to extensive investigations, the prosecution of a number of trustees and the cancellation of a number of licences as well. At about the same time, arrangements were made with the R.C.M. Police to carry out field investigations of applicants for a licence to act as trustees. This resulted in a better and closer scrutiny of the applications for a licence. The abuses that were uncovered in the late fifties also prompted the Bankruptcy Branch to make an audit of all the trustees in bankruptcy. This eventually led, in 1964, to an arrangement between the Bankruptcy Branch and

the Audit Services Branch of the Comptroller of the Treasury of the Department of Finance for the establishment of the first systematic and periodic audit of all trustees in bankruptcy.

Trustees, as you are undoubtedly aware, are licensed by the Superintendent of Bankruptcy under the authority of the Minister, now the Registrar General of Canada. The Act provides that the Superintendent shall make an investigation into the character and qualifications of any applicant for a licence and report to the Minister the result of his investigation together with his recommendation for or against the granting of the application and his reasons therefor. The Act gives the Minister complete discretion in that respect and, if he considers that it will be of public advantage to issue a licence, he will authorize the Superintendent to do so.

Over the years, certain criteria have been evolved and up until recently an applicant meeting the following requirements would normally have been granted a licence: (1) The applicant's assets ought to be sufficiently in excess of his liabilities to warrant confidence in his financial stability; (2) The applicant must have had some practical experience in bankruptcy or winding up matters; (3) If the applicant had carried on his own business, either alone or in partnership, he must have demonstrated that he had successfully and continuously carried on the business for five years preceding the date of his application; (4) The applicant must have been in good health, well recommended and have had sufficient education.

This is the policy that has generally been followed since the early fifties up until recently and it is usually referred to as the "open door policy", as opposed to the policy under which the number of licencees would be restricted to a certain number in any particular area.

When I was appointed Superintendent in April of 1965, this is one of the problems that quickly attracted my attention. Even with the assistance provided by the R.C.M. Police in the manner that I have just described, there was a need for a further tightening up of the policy in that respect, and pending a revision of the whole policy regarding the licensing of trustees, no new trustees have been licensed since my appointment as Superintendent.

The experience has shown, in my view, that the policy that has been followed in the past is not adequate anymore and that some means have to be devised to assure to the fullest possible extent that applicant trustees have all of the qualifications, knowledge and administrative ability to carry out their duties as trustees in a competent and diligent manner. I do not believe that we will be in a position to improve the quality of our trustees by anything falling short of an examination before a Board. Such a Board would look into the qualifications and integrity of applicant trustees.

The whole question of the licensing of trustees is, of course, one of the questions that the Committee that the Minister of Justice has set up in last February to assist the Department in its revision of the Bankruptcy Act, will consider carefully and report on. We are, however, presently considering the possibility of lifting the moratorium that has been imposed on the licensing of new trustees and to adopt, pending the report of the Committee on the Revision, an interim policy that would permit the licensing of nothing but the very best of the applicants.

A number of measures have been taken to assist the trustees in upgrading their standards of performance and my office will continue to do everything possible to assist the trustees to provide a still better service to the community. As you know, our trustees are self-taught. There are no schools where applicants could learn to become a trustee. Much can be done towards more uniformity in performance and administration. The Bankruptcy Branch can assist the trustees, in a number of ways, to become more competent and knowledgeable. We have, recently, begun to circulate Bulletins to the trustees. We hope that these Bulletins will eventually form a complete guide of procedures for trustees. We have already circulated six of these Bulletins and we are working on others. They cover such topics as the bankrupts' statements of affairs, rules of conduct for trustees, the taking of inventories, etc.

My next remarks are suggested by statistics that are collected in the Bankruptcy Branch.

The first area of interest concerns the number of bankruptcies and the amount of the losses resulting therefrom.

I have here three tables for, firstly, the bankruptcies reported under the general provisions of the Act, secondly, the bankruptcies reported under the summary provisions of the Act and thirdly, the proposals ratified under the relevant provisions of the Act.

Each table shows the number of cases and the total amount of liabilities, in thousand of dollars, as declared by debtors.

Reading these tables, we find, for example, that the total number of bankruptcies for the year 1965 was 5,023. In 1964, the number was 5,562 and in 1963 5,189.

The total liabilities as reported by debtors were, for 1965, \$267,903,000, for 1964, \$210,856,000 for 1963, \$201,273,000.

These figures do not represent the losses suffered by creditors from bankruptcies. They represent the total liabilities as declared by debtors. To get the amount of the losses, we have to deduct from the liabilities, the dividends received or the recovery made by secured creditors as well as the dividends paid to unsecured creditors.

From an analysis made of estates closed during the years 1963, 1964 and 1965, we estimate that for each dollar of liability declared by debtors, secured creditors would recover 22 cents, preferred creditors 3 cents and unsecured creditors, 10 cents.

As a result, for each dollar of liability declared by debtors, the total amount lost to creditors would be around 65 cents.

If we apply these percentages to the 1965 figures, we come to an estimated loss to the creditors for the year 1965 of \$174,138,000. It must be appreciated that this figure is a very rough estimate. It does not either include cases of insolvency coming under the Winding-up Act (according to the Dominion Bureau of Statistics, there were 47 such cases in 1965 with total liabilities of \$4,005,000) and insolvency cases, such as the Atlantic Acceptance, which do not come under either the Bankruptcy or Winding-up Acts and which were put in receivership at the request of bondholders.

We do not know how much, out of this amount, would represent losses to the Federal Government or the Department of National Revenue. Such information would have to come from the creditor department concerned, if it is available.

Another area of bankruptcy administration where figures are interesting concerns the amount of dividends distributed by trustees. It is not possible to say precisely how much money was paid in dividends for any given year. But we estimate that for the year 1964, for example, where 2,972 estates were closed, trustees have distributed more than \$20,000,000 to creditors. This is a figure that is worth mentioning, I believe, and which shows that our efforts, towards a still better supervision of estates in bankruptcy are directed to the protection of interests that are well worth it.

The last figures that I want to mention are related to the number of estates closed each year.

I have here a table showing the number of estates in bankruptcy reported each year since the creation of the office of the Superintendent of Bankruptcy (1933) up until 1965, together with the number of estates closed in each year and the number of estates carried over. In 1965, for the first time since 1958, the number of estates closed exceeded the number of estates reported. Furthermore, except for the year 1958, where the estates closed totalled 3,361, it was the first time that the number of estates closed exceeded the 3,000 mark with an estimate of 5,500 files closed.

The number of estates carried over is nonetheless far too great but we expect that it will be possible, within a reasonable future, to reduce that number substantially.

As my final remark, I would like to say that the amendments that were made recently to the Bankruptcy Act, do not by any means bring remedies to all of the questions and problems that need to be corrected by legislative action. As you are aware, there is a Committee of three members that is actively working on a complete revision of the Bankruptcy Act. All of the numerous representations that have been made to the department in this connection are being considered and will be reported upon. The Committee which comprises Mr. John D. Honsberger of Toronto, Mr. Pierre Carignan, Q.C., of Montreal and myself has been very active since its creation in last February. As a rule, we meet two days every week and our work is progressing satisfactorily.

The problems that we are facing in the field of bankruptcy are serious and challenging. I believe that the amendments that were made to the Bankruptcy Act by Parliament recently will go a long way to solve some of the most urgent of these problems. The setting up of local bankruptcy squads of well trained and knowledgeable auditors and investigators will also, I believe, constitute a landmark in the field of bankruptcy administration.

REPORT BY THE SUPERINTENDENT OF BANKRUPTCY
FOR THE YEAR ENDING 31st DECEMBER 1965

Cases Filed, Closed and Pending

The following schedule lists by number of estates the bankruptcies in Canada as administered over the last thirty-three years:

Year	Estates Reported	Estates Closed	Administration Carried Over
1933.....	2,608	850	1,754
1934.....	1,411	1,620	1,545
1935.....	1,263	1,198	1,610
1936.....	1,154	1,069	1,695
1937.....	967	1,149	1,513
1938.....	1,074	1,098	1,489
1939.....	1,109	1,119	1,479
1940.....	1,003	1,084	1,398
1941.....	918	981	1,335
1942.....	725	879	1,181
1943.....	416	675	922
1944.....	273	468	727
1945.....	264	351	640
1946.....	269	299	610
1947.....	509	320	799
1948.....	799	450	1,148
1949.....	1,045	672	1,521
1950.....	1,275	678	2,118
1951.....	1,349	993	2,474
1952.....	1,434	1,195	2,713
1953.....	1,617	1,256	3,074
1954.....	2,265	1,336	4,003
1955.....	2,414	1,434	4,983
1956.....	2,849	953	6,879
1957.....	3,486	2,255	8,110
1958.....	3,229	3,361	7,978
1959.....	3,238	2,923	8,293
1960.....	3,641	2,826	9,108
1961.....	3,511	2,950	9,669
1962.....	4,297	2,772	11,194
1963.....	5,189	2,829	13,554
1964.....	5,562	2,972	16,144
1965.....	5,279	5,500 Est.	15,923
TOTAL.....	66,438	50,515	15,923
Proposals ratified and tendered, etc.....			3,000
			18,923

BANKRUPTCIES REPORTED

UNDER THE GENERAL PROVISIONS OF THE ACT
(Unencumbered Assets Expected to Exceed \$500)
Thousands of Dollars

Year	MARITIMES		QUEBEC		ONTARIO		WESTERN PROVINCES		TOTAL	
	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities
	\$		\$		\$		\$		\$	
1950.....	39	176	848	21,464	165	5,651	90	2,919	1,142	30,210
1951.....	40	1,106	559	19,846	167	5,848	89	3,208	885	30,008
1952.....	34	864	578	15,807	168	6,522	57	1,963	837	25,156
1953.....	26	1,875	544	19,704	188	9,024	129	6,095	887	36,698
1954.....	37	1,541	754	31,193	292	16,490	134	7,483	1,217	56,707
1955.....	29	2,350	735	26,788	263	14,658	135	6,244	1,162	50,040
1956.....	34	2,130	737	33,153	309	19,679	117	6,995	1,197	61,957
1957.....	48	1,391	849	32,463	398	27,152	135	8,269	1,430	69,275
1958.....	33	4,430	836	34,330	267	13,891	133	9,577	1,269	62,228
1959.....	36	2,142	894	44,045	372	26,293	126	8,008	1,428	80,488
1960.....	43	3,550	1,075	55,881	540	84,330	159	16,228	1,817	159,989
1961.....	43	4,667	932	42,162	511	40,887	152	12,216	1,638	99,932
1962.....	27	2,791	1,099	69,989	640	47,108	180	12,515	1,946	132,403
1963.....	54	3,691	1,289	76,974	600	63,223	172	12,831	2,115	156,719
1964.....	40	3,739	1,306	89,003	531	50,718	162	17,584	2,039	161,044
1965.....	36	2,965	1,225	92,156	501	103,635	150	25,530	1,912	224,286

BANKRUPTCIES REPORTED

UNDER THE SUMMARY PROVISIONS OF THE ACT
(Unencumbered Assets not Expected to Exceed \$500)
Thousands of Dollars

Year	MARITIMES		QUEBEC		ONTARIO		WESTERN PROVINCES		TOTAL	
	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities
	\$		\$		\$		\$		\$	
1950.....	1	3	124	756	5	54	3	11	133	824
1951.....	1	10	422	2,305	31	326	10	79	464	2,720
1952.....	4	131	524	2,888	48	541	21	167	597	3,727
1953.....	3	11	642	3,923	68	694	17	222	730	4,850
1954.....	8	73	911	5,797	105	1,351	24	259	1,048	7,480
1955.....	9	58	1,056	5,967	151	2,170	36	389	1,252	8,584
1956.....	6	47	1,412	7,800	196	3,044	38	660	1,652	11,551
1957.....	8	48	1,705	9,410	286	4,035	57	673	2,056	14,166
1958.....	9	91	1,523	10,062	360	4,582	68	832	1,960	15,567
1959.....	11	80	1,318	10,416	405	8,778	76	939	1,810	20,213
1960.....	11	174	1,230	9,740	493	7,345	90	13,108	1,824	30,367
1961.....	9	113	1,112	9,412	652	9,614	100	1,059	1,873	20,198
1962.....	7	146	1,261	10,750	904	13,527	179	2,609	2,351	27,032
1963.....	20	270	1,427	15,531	1,460	26,429	167	2,324	3,074	44,554
1964.....	36	524	1,526	17,027	1,694	28,917	267	3,344	3,523	49,812
1965.....	25	254	1,292	13,257	1,529	26,205	265	3,901	3,111	43,617

PROPOSALS RATIFIED

UNDER SECTION 27(1) (A) OF THE ACT
Thousands of Dollars

Year	MARITIMES		QUEBEC		ONTARIO		WESTERN PROVINCES		TOTAL	
	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities	Cases	Liabilities
		\$		\$		\$		\$		\$
1950.....	2	8	56	3,850	5	506	4	423	67	4,787
1951.....	4	59	108	2,399	7	297	4	74	123	2,829
1952.....	φ	φ	118	3,778	11	619	1	43	130	4,440
1953.....	φ	φ	165	6,753	10	1,372	4	381	179	8,506
1954.....	5	313	265	14,928	29	2,645	3	655	302	18,541
1955.....	4	390	246	9,796	29	1,994	5	212	284	12,392
1956.....	6	304	162	6,571	25	2,816	9	1,877	202	11,568
1957.....	4	216	185	7,906	27	4,140	6	3,468	222	15,730
1958.....	2	200	230	9,060	26	6,031	9	1,215	267	16,506
1959.....	3	95	203	8,793	41	6,339	8	845	255	16,072
1960.....	5	1,655	536	35,690	101	41,372	21	6,419	663	85,136
1961.....	5	3,207	279	15,248	61	12,603	20	5,973	365	37,031
1962.....	2	124	221	17,241	61	11,983	12	3,836	296	33,184
1963.....	8	1,643	183	22,324	60	23,270	32	5,119	283	52,356
1964.....	8	830	159	18,857	40	13,060	22	3,130	229	35,877
1965.....	5	1,047	203	40,960	39	9,879	9	3,141	256	55,027

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

TUESDAY, NOVEMBER 22, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1964)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. Gilhooly of the Auditor General's Office: *From the Department of Manpower and Immigration:* Mr. Tom Kent, Deputy Minister; Mr. S. W. Kaiser, Director, Financial and Administrative Services; and Mr. A. D. MacDonald, Acting Director, Employment Stabilization Branch.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,
Mr. Gendron,

Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. McLean (<i>Charlotte</i>),	Mr. Stafford,
Mr. Morison,	Mr. Tardif,
Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Maison- neuve-Rosemont</i>),
Mr. Noble,	
Mr. Prittie,	Mr. Tremblay,
Mr. Racine,	Mr. Tucker—(24).
Mr. Schreyer,	

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 22, 1966.

(37)

The Standing Committee on Public Accounts met this day at 9.55 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Hales, Lefebvre, Morison, Muir (*Lisgar*), Southam, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Gilhooly and Laroche of the Auditor General's Office; *From the Department of Manpower and Immigration:* Mr. Tom Kent, Deputy Minister; Mr. S. W. Kaiser, Director, Financial and Administrative Services; and Mr. A. D. MacDonald, Acting Director, Employment Stabilization Branch; *From the Unemployment Insurance Commission:* Colonel Laval Fortier, Chief Commissioner; and Messrs. Fidler, Cuddy and Stimpson.

Discussion ensued respecting Mr. Baldwin's Point of Order raised at the November 17th meeting relating to Vote 15 and the November payroll requirements for the Public Service which had been ruled out of order by the Chairman.

The Chairman mentioned statements from the House of Commons Debates of November 17, 1966 made by the President of the Treasury Board. It was agreed unanimously, to have the Secretary of the Treasury Board, Mr. George Davidson, appear before them Wednesday, November 23, 1966.

The Chairman introduced Mr. Tom Kent, Deputy Minister of Manpower and Immigration and he and his associates were questioned respecting *Paragraph 71 of the Auditor General's Report 1965—Municipal winter works incentive program*.

The Committee ordered printed a Statement of the costs of these winter works programs in the Minutes of Proceedings and Evidence. (*See Appendix 16*)

The Committee agreed that in view of the lack of time, Colonel Laval Fortier, Chief Commissioner, Unemployment Insurance Commission, would appear first at the meeting of Thursday, November 24, 1966.

At 11.00 a.m., the meeting adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, November 22, 1966.

The CHAIRMAN: Gentlemen, we have a quorum. I am very pleased about this because there are some twenty odd committees meeting this morning. It is said that our committee draws most favourably on the list of members. Mr. Baldwin, would you like to introduce that matter very briefly.

Mr. BALDWIN: Very simply, to repeat what I said before for the benefit of the members, I am now reviewing the application I made at the last meeting of this committee with regard to this committee examining the general principles surrounding the methods by which the mid-November payroll was met.

Now, while you quite properly rejected my first application for a specific examination of all the details, nevertheless last Thursday during the course of the debate at the committee stage of the appropriation bill the Minister of National Revenue agreed that it would not be improper for this committee, although it was not for him to say what this committee should do, but on behalf of the government he placed no obstacle in the path of the committee having an examination of this issue so far as the principles were concerned. He made it quite plain, and I think I should repeat it, that this excluded our examination or discussion of the legal opinion which he obtained from the officers of the Department of Justice. I am in agreement with this at this time. I am not asking that we do so today, Mr. Chairman.

I am suggesting, however, that when Dr. Davidson could be here and the Auditor General and his officials I think we could have a very useful and a very essential discussion. I stress that because, during the course of the debate on Thursday, Mr. Benson suggested that some of the changes in the wording, for example, of vote 15, the contingency fund, came about because of recommendations which this committee made several years ago.

Now, I am not questioning Mr. Benson's statement, but I think this does throw some of the responsibility back on us. I cannot recall having our minds directed to that specific point. I would certainly not have consciously approved such a direction. For that reason I ask that we might have unanimous consent, and we might rule on it at an appropriate time when Dr. Davidson and Mr. Henderson can be here together, and as soon as possible this committee could direct its attention to a meeting to at least consider this very important point.

The CHAIRMAN: Well, Mr. Baldwin and members of the committee, further to my ruling a week ago today on this matter, it so happened that the Minister of National Revenue in the house on November 17 was referring to this very particular matter of mid-November payments to the civil servants. When he had

concluded some of his remarks I rose in the house and I said the following. This appears in *Hansard* of November 17, 1966, page 10005:

On a point of order, Mr. Chairman, and in order to bring this debate to a close, I wish to say I understand that the minister has agreed to refer this matter to the public accounts committee, except the legal aspect of the question. Is this the interpretation I can take from what the minister has said?

The minister replied:

What I have said is that I recognize the right of the committee to look into the wording of vote 15 and ask questions on vote 15 in the public accounts presently before it. I have said that the particular transactions, indicating each vote and the amount used from each vote, will appear in *Hansard*. The amount by which this vote was supplemented, which was \$2.16 million, will have to be repaid. I shall bring the details before the house later today, and ask that they be included in *Hansard*.

At that point I was still not too sure, and I rose again and said:

The public accounts committee can only deal with those matters that are referred to it by the house. The Auditor General's report for 1965 has been referred to this committee, and we, in the committee, are dealing with it. I take it that we are within the bounds of our terms of reference relating to that report if we deal with this particular matter that we have been discussing.

In view of the statement of the minister, as Chairman of this committee I would accept your suggestion that we have been given the authority by the minister to discuss this very matter that has been introduced here.

Now, is it the wish of the committee that we have a statement from the Auditor General and also from Dr. Davidson, Secretary of the Treasury Board, at the earliest opportunity? Visualizing that such a request might come forward I asked our secretary, Mr. Bennett, to see if Dr. Davidson could appear before the committee. He is extremely busy in view of the fact that he is appearing before the joint committee of the House of Commons and Senate on the public service bill, but he is available tomorrow afternoon or tomorrow evening. The only other time he has available is Friday afternoon or next Monday morning.

Mr. LEFEBVRE: Did you say Wednesday afternoon?

The CHAIRMAN: Yes, tomorrow afternoon.

Mr. BALDWIN: I would suggest, Mr. Chairman, we might have Dr. Davidson here and get statements from Mr. Henderson and Dr. Davidson. If, as a result of those statements, it appears that further discussion will be useful, then the committee might agree on tomorrow afternoon to fit our convenience with that of Mr. Henderson and his officers and Dr. Davidson to resume the discussion if it appears essential. Let us decide that tomorrow.

The CHAIRMAN: Mr. Henderson, are you available tomorrow afternoon?

Mr. HENDERSON: Yes, Mr. Chairman.

The CHAIRMAN: It is agreed by the members of the committee that we meet tomorrow afternoon and these two officials will be present.

(Translation)

Mr. THOMAS (*Maisonneuve-Rosemont*): Mr. Chairman, for my own information, are the Committee to find out how the money is paid, or whether the money is paid out as it should be?

(English)

The CHAIRMAN: Yes, the purpose of the meeting is to learn how it was done, and so on.

(Translation)

Mr. THOMAS (*Maisonneuve-Rosemont*): In other words, you have a doubt. You think that maybe the money was not used as it ought to have been?

(English)

The CHAIRMAN: You are asking me personally and I do not know whether it was or was not. I would like to know how the mechanics work. I think this is what the committee would like to know.

Mr. BALDWIN: Mr. Chairman, may I add a postscript to that. I do not think it is a question of the doubts we might have, but I think it is a question of the practice. Let us assume for the sake of argument that this is perfectly legal, perfectly proper and it was narrowly within the four corners of the law. I think we should consider how it was done so that we, as a committee charged with the responsibility of seeing that parliament continues to exercise control over the treasury, could say this is not a practice which should be continued or, if continued, there should be certain changes. This is my view. I am not saying we should argue the legality of it, I think we should look at this practice and ask ourselves is it a good practice and to what extent should we continue it.

The CHAIRMAN: Gentlemen, we shall meet tomorrow afternoon at 3.30 unless advised otherwise.

We will now proceed with the meeting arranged for today. We have Mr. Tom Kent, the Deputy Minister of Manpower, and his officials, Mr. MacDonald and Mr. Kaiser, and I would like Mr. Kent to stand, I am sure you all have met Mr. Kent, Mr. Kaiser and Mr. MacDonald. Welcome, gentlemen. We are going to deal with chapter 71, page 42 in English and page 46 in French, of the report of the Auditor General for 1965. Mr. Henderson, would you like to briefly introduce this matter?

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I think the members are generally familiar with the substance of paragraph 71 on the municipal winter works incentive program.

71. *Municipal winter works incentive program.* The federal Government is signatory to agreements with all of the provinces and the Yukon and Northwest territories under which it undertakes to pay a percentage of direct labour costs incurred on site on accepted works projects undertaken during the winter months by municipalities, Indian reserves or bands, and unorganized settlements. The federal Government has been party to similar agreements with the provinces since 1958, the terms having been modified over the years to provide for a wider scope of

acceptable projects, an increase in the maximum incentive payable towards municipal buildings constructed, and an increase in the percentage of direct labour costs payable under special circumstances. Incentive payments by the federal Government from the inception of the program to the end of the year have amounted to \$136,741,000.

The prime purpose of the federal payments is to encourage municipalities to create additional winter employment by postponing or advancing work scheduled for summer into the winter period. Embodied in the agreements are certain conditions designed to ensure that the maximum benefit from the additional employment created accrues to persons who would be unemployed in the absence of special winter works projects.

A condition of the agreements is that final claims for incentive payments by the federal Government will be audited by the provincial auditor or an auditor designated by him. In some of the provinces the audit carried out in compliance with this condition included an examination of the records of the municipalities and contractors involved, an essential procedure in determining whether the terms of the agreement are being complied with, whether the charges are legitimate and whether the purposes of the agreement are being achieved. In other provinces, checks were being made of the records of the municipalities but not of the contractors. In Saskatchewan and Prince Edward Island, however, little more than a check of the arithmetical accuracy of the claim and the authority for the projects was being made. The certificate of the provincial auditor was based primarily on the certificates (attesting to the direct payroll costs incurred) provided by the relevant municipalities and contractors, without any examination being made of the underlying records of the municipalities or contractors. In these cases there is reason to doubt whether all charges are legitimate and whether the conditions of the agreements have been met.

A condition introduced in the 1963-64 agreements is that the provinces will permit access by authorized officials of the Government of Canada to records, documents and files of the province and its municipalities as may be deemed necessary for the audit of direct payroll costs claimed under this program. Although a signatory to the agreement, the Province of Quebec has indicated its reluctance to an examination being made of the records of its municipalities by members of the Audit Office on the grounds that these records are already being subjected to extensive examination by the provincial auditor. As a result, we are not examining the records of municipalities in this Province.

Our test examinations of provincial and municipal records and of reports of provincial auditors indicate that the effectiveness of the program in providing benefits to those whom it was designed to benefit is somewhat less than its potential and that there is need for a more specific spelling-out of the terms of the agreements to set straight some questionable practices which have developed:

1. Instances were noted where regular or permanent employees of a municipality were employed on projects without being replaced at their regular jobs by men drawn from the pool of unemployed, as

required by the agreement. In these cases, the incentive payment, instead of being diverted to the unemployed, becomes an additional subsidy to the municipality.

2. Many projects carried out by contractors have a labour content which includes supervisors, technicians and engineers, including sometimes the principals of the firm, whose earnings are eligible for reimbursement because they possess special skills and their services are essential to the project. Few of these persons can be considered to be actually seeking employment and, therefore, very little of the reimbursement related to their earnings is directed to the unemployed.
3. The federal incentive payment is 50 per cent of the direct payroll costs of projects except for those carried out in "designated areas" and in areas determined by the Minister of Labour to be areas of high winter unemployment, where the rate is 60 per cent. This incentive, with few exceptions, is supplemented by the provinces, the provincial incentive varying between 25 per cent for most of the provinces to 40 per cent for one province. Since the combined federal and provincial contributions account for from 75 per cent to 100 per cent of payroll costs, the burden on the municipalities can sometimes be small or even non-existent. In these circumstances, there is a tendency for municipalities to undertake 'makework' projects, usually of high labour content, which might otherwise never be undertaken, merely to provide work for its residents.
4. Some unorganized settlements and a few municipalities have financed their share of the cost of projects by assessing each worker a percentage of his earnings. Where this situation has been encountered in the audit the amount assessed has been disallowed as a cost eligible for reimbursement on the grounds that the payroll costs do not represent the municipality's actual outlay for labour expended directly on a project.
5. The agreements stipulate that overtime work, except in emergencies, should be excluded, the purpose being, of course, to encourage either the employment of more workers during the regular working hours or extension of the period of employment. 'Emergency' is not defined and some contractors carried out overtime work for reasons such as to complete a project within the prescribed period of the program, or to complete a project in order to commence another undertaking. The payment of an incentive towards overtime incurred under these circumstances contributes little to the benefit of the unemployed.
6. A condition of the agreements frequently not complied with is one requiring that the facilities of the National Employment Service, where available, be used in hiring workers for accepted projects. As a result it was almost impossible to determine whether workers engaged on projects were, in fact, previously unemployed. Three main factors contributed to the failure to recruit in this manner. First, many urban municipalities are required under terms of union agreements to re-employ members of the union for winter works

projects before other unemployed may be recruited. Second, many municipalities and contractors have a policy of employing temporary or laid-off personnel before providing employment for others. Third, in agricultural areas, municipalities employed farmers who, being not insurable under the Unemployment Insurance Act, are frequently not registered with the National Employment Service. Where, in order to comply with this requirement, municipalities or contractors attempted to obtain the approval of the National Employment Service in the above circumstances, they were usually refused on the grounds that the bona fides of the unemployment status of these workers cannot be established and it would be tantamount to rubber-stamping employment transactions in which the National Employment Service did not participate.

7. A property comprising a monastery and surrounding land belonging to a religious order is incorporated as a municipality. As such, it is entitled to have eligible local projects carried out and to be reimbursed the normal incentive payment under the program. Included in the labour costs forming the basis of this municipality's claim in connection with the construction of an auditorium, and ruled admissible charges, were the wages paid to the religious brothers who worked on this project.
8. Instances were noted on projects carried out under contract where the wages shown on the claim were at the rates charged to the municipality by the contractor and not at the rates actually paid by him to his employees.

In addition to the questionable practices noted above, our review of the working paper files of the provincial auditors who carried out a detailed audit of claims revealed instances of fraudulent and irregular practices being disclosed. These practices include the payment of wages to employees for longer hours than were actually worked, the reporting of wages on claims at hourly rates which were more than were actually paid, the inclusion of fictitious employees on project payrolls and the inclusion on project payrolls of municipal employees who were engaged on other than winter works projects.

There was some discussion right after my report appeared last February. I believe that officials of the Department of Labour, which was administering it at that time, appeared before the Senate finance committee, if my recollection serves me right. Mr. Gilhooly, my director who is with me here today, attended that meeting and it brought out some interesting information.

I suggest, as you have doubtless read paragraph 71, that it is not necessary for me to recapitulate. The only point to which I would direct your attention is the listing of the questionable practices on page 43. There are eight of them listed here. We have precise examples from our working papers in respect of each one outlined. You might like to direct some of your questioning to Mr. Kent and his associates on these specific practices.

The CHAIRMAN: Thank you, Mr. Henderson. Now, gentlemen, as usual we are somewhat pushed for time. I believe we have to vacate at eleven o'clock or thereabouts.

The Auditor General has brought to the attention of the committee eight points that deal with the handling of the winter works program. I wonder, Mr. Kent, in order to save time, if you would like to take each of those points and comment on them? I think what the committee is most interested in is that such practices will be corrected and will not occur again, and with that in mind we will call on you now, Mr. Kent.

Mr. BALDWIN: Mr. Chairman, could he comment also on what I think is another point of importance. The question of the position of the province of Quebec is referred to by the Auditor General. I would like Mr. Kent, when he is making his comments, to indicate whether or not the provincial authorities have rejected outright the request for an examination by the Auditor General of Canada pursuant to the agreement, or whether they are just reluctant to do so. I think there is a difference between reluctance or an outright refusal to accept.

Mr. HENDERSON: May I say to Mr. Baldwin that it is essentially, I think, a reluctance. My arrangements with the provincial auditor of Quebec are particularly happy. In fact, I think you know we are joint auditors of Expo '67 and consequently I work more closely with him than I do with some of the others.

He is carrying out his own examination of these records and we have every reason to believe that it is a satisfactory one. Consequently we have not seen fit to intrude ourselves into it, but it is a fact that we do not carry out the same scope of work in that province that is carried out elsewhere.

Mr. TOM KENT (*Deputy Minister of Manpower and Immigration*): Mr. Chairman, I would first like to make a comment supplementary to Mr. Henderson's from the departmental point of view. It certainly is always our impression that the auditing of the municipal claims by the province of Quebec is carried out very carefully and conscientiously. We have not felt any sense of concern in that respect.

Mr. Chairman, perhaps I could go quickly through the eight points and comment on what we have done in the light of the Auditor General's report on each point. As I am sure the committee understands, Mr. Chairman, the general problem in the administration of a program of this kind is that, while it has an objective which is a very clear and simple, one of providing extra employment in the winter, this objective has to be achieved without excessive regulation and detailed control from Ottawa of a kind which would neither be desirable nor indeed possible in such a case. This does necessarily involve the likelihood that, in order to achieve the over-all objective, some proportion of the total money will be spent on employment which, in fact, would occur in the winter in any event. There is bound to be a small percentage of, so to speak, inevitable employment in order to achieve some extra winter employment.

That point was recognized by allowing permanent employees to be engaged in the project provided they were balanced, so to speak, by the municipality hiring other employees in their place elsewhere in its operations. This was a very difficult provision to administer and we have now, in the light of the Auditor General's comments on this point, provided in the program for this winter that regular employees of the municipality will in fact be excluded.

The CHAIRMAN: Are there any questions on point number 1? We will then proceed with point number 2.

Mr. FLEMMING: I would like to ask Mr. Kent about the communities where, under ordinary circumstances, a surplus of employment exists for the forest industry. From that point of view is there any attempt made—and does he think there should be an attempt made—to arrange winter works incentive programs to a certain extent from the point of view of geography? I am told by some of the pulp and paper companies that generally speaking in the past they have found that as of November 1, say, people were offering their services for work in the woods. I am now told the situation is reversed and those who are eligible for this type of employment are coming out of the bush and saying, “Now I have a job in the winter works program, which is rather preferable, I am home each night”, all this sort of thing.

My question, Mr. Kent, is, has your department taken some steps to have the winter works program carried on more extensively, at least in communities where the ordinary work in the woods is not available?

The CHAIRMAN: That is an excellent question. It is hardly relative to point number 1 but it would be under the general operations of your department, and I think we will answer that first when we go through these points and there will also be other general questions. Your questions will be first on the list under general discussion.

Mr. FLEMMING: That is quite all right, Mr. Chairman.

The CHAIRMAN: Point number 2.

Mr. KENT: I think we have had to take the view, Mr. Chairman, on number 2 that of course it is unavoidable that this type of person should be employed in the project in order that the project should take place. This is, in the narrow sense of the word, perhaps an inefficiency in the program which we have not been able to devise any means of avoiding. It is not, however, perhaps a major consideration. Clearly, if these projects are to go forward, then there are bound to be some specialized workers who in truth would be employed in any event.

The CHAIRMAN: Any questions, gentlemen?

Mr. BIGG: I am not sure whether or not this is the right place to bring this matter up, but is it necessary for all these people hired by the municipality to pay unemployment insurance?

Mr. KENT: When they have been hired?

Mr. BIGG: What I am suggesting is do we make sure, when we are paying these subsidies to the municipalities, that these people pay into the unemployment insurance fund? My understanding is that a great many farmers work on things such as brush cutting. Are they registered as unemployed before they get this work, or do they pay into the fund once they do start to work? Is there any loophole for them to work without a certain percentage going into the unemployment insurance fund?

Mr. KENT: Oh, no. They may not have been paying unemployment insurance before, but when they become employees for this purpose then they are covered by unemployment insurance.

Mr. BIGG: There is a cross check that any monies paid out by us are paid to people who are paying unemployment insurance?

Mr. KENT: Well, not a cross check; but certification, of course. It includes unemployment insurance in the listing of the items of payroll costs which the auditor certifies as having taken place.

Mr. BIGG: There is not a detailed cross check?

Mr. KENT: Oh, no.

The CHAIRMAN: I think what Mr. Bigg is getting at is that the purpose of the winter works program was to hire unemployed people and hire them through the employment office, formerly the National Employment Service office. If that was done, how is it you hired supervisors, technicians and engineers?

Mr. KENT: Only to the extent of the provision of the program which, as you will remember, sir, is that the bulk of the employees must be ones who would be otherwise unemployed. In order to employ those who would otherwise be unemployed, it is necessary to employ a certain minority of more technical personnel who probably would, in fact be employed in any event.

Mr. HENDERSON: Your question, if I may suggest, Mr. Chairman, is more pertinent perhaps to number 6, which deals with the National Employment Service.

Mr. BIGG: I come from a rural area where I am very anxious that the farmers benefit as much as anybody else, but it seems to me that perhaps you are doing this backwards. If these farmers want to work on a winter works program they should register as being unemployed first and then be hired through the usual channels, rather than being hired on the street and then just pay a small percentage of their wages.

The CHAIRMAN: Farmers will be covered under number 6.

Before we leave number 2 I think the committee would want to have some assurance, Mr. Kent, that the winter works program this winter will not include wages for labour to technicians, engineers and supervisors. This has gone on in the past and the committee would want to have some assurance that these people will not be on the payroll this winter or any winter hereafter. Am I expressing your views, Mr. Lefebvre?

Mr. LEFEBVRE: Under number 2 it says that these people are eligible for reimbursement because they possess special skills and their services are essential to the project. By doing this you might be cutting out certain projects that the average small municipality will not be able to undertake because they are not large enough to have a full time engineer on their payroll. Therefore, there are cases where engineering skills are required to undertake certain projects, is that correct, Mr. Kent?

Mr. KENT: The program is designed to provide employment in the winter where it would not otherwise exist. For that purpose we undertake to pay to the municipality a proportion of the total payroll costs of a project. That is the form of the offer to the municipality. Whatever the payroll costs are, they must be the direct payroll costs on the job. We then will pay the relevant proportion, 50 or 60 per cent, as the case may be. Those payroll costs do include a certain amount of more skilled labour for those who would probably not be otherwise unemployed, but which is essential to the provision of the employment for the majority who otherwise would be unemployed. Therefore, under the terms of

the program we have regarded it as unavoidable, that we should be prepared to include the wage costs of those people. Perhaps Mr. MacDonald, who has been familiar with the administration of this program for some years before it was transferred to our department, would like to make a further comment on that.

Mr. A. D. MACDONALD (*Acting Director, Employment Stabilization Branch of Canada Manpower Division*): I have no further comment. That explains it very well, I think. We just try to keep it to a minimum, of course.

The CHAIRMAN: Mr. Henderson, do you have any further comment?

Mr. HENDERSON: I would not have any further comment on this, Mr. Chairman. I think there is considerable validity to the point Mr. Kent makes. This is, after all, for the benefit of the majority and it poses a pretty difficult question. I suppose it would be possible to exclude the amount paid to these people from the final settlement, but in total it must seemingly be a very small percentage.

The CHAIRMAN: Number 3. Mr. Flemming.

Mr. FLEMMING: Do Mr. Kent or the Auditor General have any offhand knowledge what percentage this would be of the total payrolls in such a situation? I can see where a large volume, so far as personnel is concerned, might be the people who are unemployed and need the work, but I can also see that skilled technical people employed to any extent might amount, in the aggregate of the total cost, to a very substantial portion of the whole. I am just wondering whether Mr. Kent has any information on this.

The CHAIRMAN: Mr. Henderson has that percentage figure.

Mr. HENDERSON: Mr. Flemming, Mr. Gilhooly has some interesting examples from his working papers here, that will illustrate the point. Perhaps you would like to hear them.

Mr. C. F. GILHOOLY (*Audit Director*): I think it was quite rightly said that it is a question of degree. There is a certain element of technical and supervisory personnel which must be included in order to make the project work. In our examination we discovered an instance where a firm of consultants included the salary of the chief consultant at \$50 a day. A contracting firm included the principals of the firm and they were charged at varying rates. I see one man, 150 hours at \$525: 45 days at \$28.35 a day. Again these are principals of firms. These we considered hardly fell into the classification of personnel who would normally be unemployed. The amount of the salary that was being included in the program we felt was of concern.

Mr. MUIR (*Lisgar*): Are we still on number 2?

The CHAIRMAN: Yes, we are still on number 2.

Mr. MUIR (*Lisgar*): Well, I was just wondering, in this last case suggested by Mr. Gilhooly, if the employer's wages are added on top of the amount of money the company are receiving for the project? If that is the case, it certainly would not be the right thing to do.

Mr. GILHOOLY: They were included in the payroll which was considered eligible for sharing under the winter works program, to which the federal government made a contribution of 50 per cent of the cost of the total payroll. They are payroll items.

Mr. MUIR (*Lisgar*): Was this a tendered job by this particular company? Did they provide a tender to the municipality for the work and then charge salaries for their own people as well?

Mr. GILHOOLY: Although the information is not in my working papers, I would assume they were tendered.

Mr. MUIR (*Lisgar*): Then in that case I think that is an illegal wage because the company are being paid through their tender. They are also submitting, in addition to the tender, wages to the municipality under the winter works program. I think what they are doing is certainly not in good faith.

Mr. HENDERSON: Mr. Muir, would this not be a case of—perhaps Mr. Kent could correct me on this—the municipality inviting tenders to do a specific job. The firm tenders. The lowest tender presumably is accepted and they go to work and the principal of the firm naturally directs it. In the bills which come in for carrying out the work his own remuneration is included with that of his labour. I cannot quite see how there could be the duplication you suggest.

Mr. MUIR (*Lisgar*): His wages should be included in the tender.

Mr. HENDERSON: They would have been, but this is how he submits the bills that the provincial auditor certifies and which Mr. Kent's department pays.

Mr. MUIR (*Lisgar*): Is he reducing the tender by the amount of the money that he is receiving from the federal government or is he adding that on top?

Mr. HENDERSON: He does not receive anything from the federal government. He is paid by the people who employ him namely the municipality, is he not, Mr. Kent?

Mr. MUIR (*Lisgar*): Or the municipality receives it.

Mr. KENT: Mr. Chairman, I would like to explain because there might be some confusion here. What is sent as a statement of claim to us could not be the tender for the job because the tender for the job would, of course, include many costs for which we are not responsible. We are only prepared to share in the payroll costs for the direct labour on site in doing the job. If the principal of the firm has in fact—and these in most cases would be small firms—worked on the job himself, then an allowance for his pay is a proper part of the payroll costs. It would have to be shown separately, not in the general tender. It is not the general tender we are paying for, it is only for the payroll item within it. The auditor certifies, under the wording that we have adopted this year, that the disbursements have been made and pertain only to workers stipulated in the conditions of the program, that is to say, the bulk of them were unemployed, and so on. But we do allow for the existence of a minority of supervisory personnel where they are essential to the carrying out of the project as a whole.

Mr. BIGG: If that is so, what is the problem if there is no abuse of this? I can certainly see in the case of loading gravel where you need a man to count the gravel trucks, although he may not be shovelling, but I would not think this should apply to architects or blue print writers for the whole job. For example, say you are digging a large basement for a city hall, most of these plans were completed perhaps three or four years ago. I do not think that anything of that nature should be included.

Mr. KENT: Mr. Chairman, they are not. These have to be direct payroll costs on the site.

Mr. BIGG: More or less hourly wages for specific time on the job?

Mr. KENT: Yes.

Mr. FLEMMING: My question, Mr. Kent, is this. Is there an attempt made to determine what rate would be appropriate for the principals of the firm to charge?

Mr. KENT: Perhaps I can ask Mr. MacDonald to comment on what has been done on that. You will all appreciate that it would be a little difficult for us to do very much since the essential auditing process here is the provincial one.

Mr. MACDONALD: We just insist in these cases that, if it is necessary to employ one of these people the wage rate charged does not include any profit, overhead or a flat rate. For example, we would not permit a contract rate.

Mr. FLEMMING: This is not my question. Mr. Gilhooly has said that, in some instances the principals of the firm were charging \$50 a day. Now for the service actually rendered on the job, as Mr. Kent has said, is that examined from the point of view of that being a fair rate to be charged by the principals of the firm in which the department should share?

Mr. MACDONALD: The provincial auditor would make a determination on this.

Mr. KENT: To answer Mr. Flemming's question, the provincial auditor has signed the statement that this is a proper part of the cost of the job.

Mr. FLEMMING: My point is based on rate rather than—

Mr. KENT: This disbursement was properly made for the purposes of the project.

The CHAIRMAN: Number 3.

Mr. MUIR (*Lisgar*): I am wondering if there is any objection by the department, under the winter works program, to a "make work" program provided it does the job for which it is intended? Where the federal government is paying 75 to 100 per cent of the project, is there any objection to the municipality having a "make work" program to provide employment in that area?

Mr. KENT: Mr. Chairman, perhaps I should emphasize first that the most we pay is 50 or 60 per cent. Where the total rises to 75, 90 or 100 per cent, this is because of an additional provincial payment. I suppose one would have to say that the essence of the program here, as federal money is voted for it, is that in a sense our role is a passive one. If the project is providing employment that would otherwise not exist in the winter, then it qualifies under the purposes of the program and it is not really possible for anyone in Ottawa to make a judgment on whether the program is producing constructive work at the end of it, so to speak, or whether its main point has been that it has provided the employment during the winter.

Mr. MUIR (*Lisgar*): Well, I would imagine that a large percentage of these projects are "make work" programs which ordinarily would not be carried on by

the municipality unless they received some kind of remuneration from senior governments. Would you not agree with that, that they are in at least half the cases "make work" programs?

Mr. KENT: I do not think it would be our impression that the percentage of programs that would not otherwise be carried out is anywhere near as high as a half. There is a great deal of work done under this program. It is simply done in the winter because of the availability of federal funds then. Otherwise it would be done in the summer, when it would be a little less expensive, and so on. Undoubtedly, it is inevitable in a program of this kind there should be some "make work" projects. I do not know whether Mr. MacDonald from his intimate experience would feel able to guess at a percentage. I doubt whether it can be done.

Mr. MUIR (*Lisgar*): I was not implying they were useless programs but they were programs which, under ordinary circumstances, the municipality would not feel they could carry forward.

Mr. KENT: Just in the sense that they could not afford it, but not that they are useless.

Mr. MUIR (*Lisgar*): Would you agree with that, Mr. MacDonald?

Mr. MACDONALD: The incentive applies only to capital undertakings. We try to eliminate work of an annual maintenance type. We are not always successful.

The CHAIRMAN: Mr. MacDonald, you can assure the committee, I suppose, that a very close look is taken at these projects before you approve them? Of course, if the province approves them you do not ask too many questions?

Mr. MACDONALD: We take a look at these projects that look like maintenance projects, sir.

Mr. BALDWIN: That goes back to the same point that is really the meat of number 2. Mr. MacDonald said that where he sees the provincial auditor's certificate on these, even dealing with the quantum of supervisory and technical staff with relation to the number of truly unemployed, he accepts it. Now, I take it from the comment of the Auditor General that while he is not sceptical, he is raising the point that possibly there is a little too much of this. Now I am wondering to what extent your staff, Mr. MacDonald does accept without question the provincial auditor's certificate when there is an issue which might involve whether or not it is necessary to employ that degree of technical and supervisory staff. Do you accept that without question, without challenge, or are you inclined to have a look at it if there is a little too much money apparently being spent for these particular types of employment?

The CHAIRMAN: I think Mr. Kaiser has the answer to this question.

Mr. S. W. KAISER (*Director, Financial and Administrative Services*): The claims received from the provinces are in fact reviewed and analyzed in some detail to determine that the items in the claim are consistent with the program. This is a regular pre-audit of all the claims before payment to the province is actually made. In addition to this, all of the projects submitted by the province for inclusion in the program are examined in detail and are, in fact, subject to the specific approval on an individual basis, depending upon the nature of the project and the costing proposed for it.

Mr. BIGG: Is there any spot check done? Supposing, for instance, you approve a highway program, brushing for instance, is any inspection done at all to see if there is any brush on the highway and that any is cut off?

Mr. KAISER: No, this is part of the provincial responsibility under the program.

Mr. BIGG: I think this is what we are really worried about. As I see it, there could be a tendency to use this as a welfare program rather than as a works incentive program. I think that we are interested in some return to the Canadian economy of useful work as well as merely subsidizing distressed areas. I hope I am not too far afield on this. If it is in fact a welfare program, I think we should know that it is and pay accordingly. If our main objective is to have full employment and productive work, I think that a spot check now and again would not do any harm.

The CHAIRMAN: Gentlemen, keep this to questions. I do not want statements, I want questions. I think to narrow your question down, Mr. Bigg, whether we can go along with these provincial audits, perhaps in some cases we should check these. To follow your question up, is there any percentage that you turn back and do not allow, Mr. Kaiser?

Mr. KAISER: No, I am afraid I could not give you a percentage, but there are a substantial number of items that are adjusted as a result of the review and examination of the claims.

Mr. FLEMMING: Would Mr. Kent, under the regulations, be able to set, if the department felt it advisable, a certain maximum for the supervisory and technical percentage of a total job? If you have a total job amounting to \$600,000 and you are going to spend about \$60,000 of that in technical and supervisory help, the result you are going to get by way of employment would be limited. Now, would it be possible under the regulations to set a maximum that the department would allow by way of supervisory and technical help in connection with projects?

Mr. KENT: It would be possible, of course, for us to set a maximum percentage, or something. The difficulty would be, I suppose, that the appropriate percentage varies so much for different types of work and if a percentage were set that might be perfectly reasonable for some jobs, then it would be very much higher than is appropriate to many others. There might be a certain danger that, once you have set a percentage, people would tend to think it is all right up to that percentage, whatever the nature of the job. We would be afraid that if we set a rigid percentage we might, in fact, encourage too much supervisory personnel on some jobs as well as discourage it on a few others.

Mr. FLEMMING: Do not all projects have to have your approval before they are undertaken?

Mr. KENT: On the individual basis this is in effect what we do. That is to say, by the process to which Mr. Kaiser referred earlier. If the percentage of supervisory costs looks high, then this would be the type of item that we would question.

The CHAIRMAN: Mr. Kaiser, have you or anyone in your department, after you have accepted a project from a federal level—approved by the province and

then accepted by you—and the project is underway, gone out on the site and actually inspected and looked over the job?

Mr. MACDONALD: Yes, in quite a number of cases. Not in all provinces; we have done that in about five of the provinces.

The CHAIRMAN: Could you give the committee one example and what you found?

Mr. MACDONALD: We find that the projects generally are carried out efficiently. The municipalities are responsible for—

The CHAIRMAN: For instance, last winter did you or anyone from the department go out to check on any one project?

Mr. MACDONALD: Checks were made on many projects last winter in the province of Quebec, and the winter before there was Saskatchewan, Alberta, Quebec, New Brunswick, Newfoundland and Prince Edward Island.

The CHAIRMAN: Was it the result of your visit to cut off a project or disallow it?

Mr. MACDONALD: No, we have never disallowed a project as a result of this inspection service.

Mr. LEFEBVRE: For the information of this committee, would you have available the total cost to the federal government broken down into provinces of the winter works program in the last fiscal year?

Mr. KENT: Mr. Kaiser can give that almost by heart.

Mr. LEFEBVRE: It is agreeable to have this inserted in today's proceedings, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. KAISER: There are actually two aspects to this. Question number 1 is the amount of the approved projects and the other is the payments to date. This is an annual program and the payments for last season have not yet been completed, but we have considered that they probably are within about 10 per cent at this stage. I could give you the payments which have been made to the end of October by provinces for the program for last winter.

The CHAIRMAN: We will see that this is provided to the committee. We are now on number 4, gentlemen. Are there any comments?

Mr. KENT: Perhaps I should comment on number 4. We do recognize that there has been a problem of the nature that was pointed out by the Auditor General here. In the conditions for the current year's program we have, in spelling out the nature of the federal charges which are acceptable, made it quite specific that kickbacks, as they are popularly called—that is to say, employees turning back to the authority part of the wages which they have been paid—are to be excluded from the costs of the project.

The CHAIRMAN: Do Mr. Henderson or Mr. Gilhooly have any further comments?

Mr. HENDERSON: No, I do not think I have any further comment.

The CHAIRMAN: Number 5, overtime work.

Mr. KENT: Mr. Chairman, we have in the new conditions spelled out, by example, the sort of thing which we mean by an emergency. For example, when a trench caves in, or something of this kind. Again, we have attempted to make it perfectly clear, in the conditions to which the certification is attached, that overtime, just to complete the job, or something of this nature, is not to be permitted as part of the costs of the program.

The CHAIRMAN: The point is that overtime defeats the purpose of the project. Number 6. Do you have any comments, Mr. Kent?

Mr. KENT: We have no detail, but again we attempt to ensure that there is the necessary degree of flexibility which there must be. While recognizing that there are bound to be people hired for these projects who in practice will not be placed directly through our offices, at the same time we make it a condition of the program that the cases in which the hiring may be done without the people coming through the local Canada manpower office are kept to the defined minimum, and that in all other cases the hiring is done through the office.

Mr. BIGG: I would just like to say that I think in general in all these cases that it would cut down on some of the abuses if even rare spot checks were made because people do not like to be found out, they do not like to have this sort of thing brought out in the open, and in the odd case where it is even aired it would reduce some of the acts which I am quite convinced are too prevalent regardless of the percentage.

The CHAIRMAN: Number 7. Do you have any comments, Mr. Kent?

Mr. KENT: I do not think I can make any comment on that, Mr. Chairman. This particular case is one where the religious order is incorporated as a municipality and it appears to be within the terms of the program.

Mr. FLEMMING: I presume this is by provincial incorporation.

The CHAIRMAN: Are there any questions on number 8?

Mr. KENT: The definition of payroll costs is such that the auditor, in certifying the statement of claim, in effect now very specifically certifies that this has not happened.

The CHAIRMAN: Well, I think the closing paragraph here is quite important and the committee, I am sure, would want the department to follow the suggestions very carefully. It says:

In addition to the questionable practices noted above, our view of the working paper files of the provincial auditors who carried out a detailed audit of claims revealed instances of fraudulent and irregular practices being disclosed. These practices include the payment of wages to employees for longer hours than were actually worked, the reporting of wages on claims at hourly rates which were more than were actually paid, the inclusion of fictitious employees on project payrolls and the inclusion on project payrolls of municipal employees who were engaged on other than winter works projects.

That is a pretty straightforward statement and the committee would want to have the assurance of your department that such fraudulent practices, and so on, will not be tolerated and will come to an end. I realize it is quite hard to follow through.

Mr. KENT: Mr. Chairman, these are cases of course where bad practices have been discovered and checked by the existing audit process. We have attempted, in the light of the comments of the Auditor General, to straighten out that auditing process to every possible degree in the ways which are mentioned in the various specific comments. The detail which the provincial auditor is in effect required to certify under the program this year is considerably greater than it has been in the past, and we feel fairly confident that the possibility of cases of this kind getting through the net has been very, very considerably reduced.

Mr. FLEMMING: I think this paragraph has very strong language and I think it should be so considered by the committee. I am just wondering, when the return is made, which, according to the Auditor General, involves these various practices referred to, is it a sworn statement? Is the person making the return required to swear as to the accuracy of his statement, whoever he may be?

Mr. KAISER: Well, the actual practice is, of course, that the municipality makes a claim on the provincial government, and it is the provincial audit which discloses these fraudulent practices. These claims never come to us including those items which have been identified as such. They are automatically rejected by the provincial authorities before they come to us for reimbursement.

Mr. FLEMMING: In this particular case it would seem to me that they come to your own department—

Mr. KAISER: I do not think this is implied, sir.

Mr. FLEMMING: Well, does the provincial government make the claim?

Mr. KAISER: Yes.

Mr. FLEMMING: Well, someone must say that they conscientiously believe it is true? Surely someone signs the claim to your department.

Mr. KAISER: Yes, these are certified by the responsible minister, and the provincial auditor when they come to us, as being an acceptable claim under the terms of the program. That is, they certify the charges as being acceptable under the terms of the program.

Mr. FLEMMING: I would like to have a little information from the Auditor General. What is the basis of his saying "a detailed audit of claims revealed instances of fraudulent and irregular practices being disclosed. These practices include the payment of wages to employees for longer hours than were actually worked"? How did the Auditor General find this out?

Mr. KAISER: By examining the papers of the provincial auditor.

Mr. FLEMMING: It would appear to be locking the door after the horse had been stolen.

Mr. HENDERSON: I would agree with that, Mr. Flemming. You see, as we say, "our review of the working paper files of the provincial auditors" disclosed these matters. Now, a little earlier in the note we pointed out that in a couple of the provinces we found the provincial auditor's work entailed little more than a check of the arithmetical accuracy of the claim and the authority for the projects being made. We have looked into the manner in which they carry out their work in order to determine the extent of the reliance that we could or should place on it, and we do this in conjunction with Mr. Kent and his officials. I spoke earlier of the province of Quebec.

The CHAIRMAN: Mr. Henderson, before you leave that point—

Mr. HENDERSON: It is the same subject, Mr. Chairman.

The CHAIRMAN: I know, but on this audit matter, has the federal auditor ever had a meeting of all the provincial auditors to go over this matter and lay down any format or regulations?

Mr. HENDERSON: My officers and I have this matter under discussion with the provincial auditors right at the present time.

Mr. FLEMMING: Is the Auditor General satisfied when these practices come to his attention that the provincial or the municipal authorities, or both, pay their proportionate share on exactly the same basis as the federal government pays theirs? Does he know?

Mr. HENDERSON: Mr. Gilhooly will answer that question. It is my understanding we do.

Mr. GILHOOLY: There is no question that the municipality and the province have paid their share of the cost.

Mr. FLEMMING: Even on these claims when he finds that hourly rates are included, which are more than were actually paid, and the inclusion of fictitious employees in the municipalities, do the provincial governments pay their share of that sort of thing?

Mr. GILHOOLY: When you are speaking in this area you are really referring back mainly to what was disclosed by the provincial auditor in the province of Quebec.

Mr. FLEMMING: Mr. Gilhooly, I am referring to what the Auditor General puts in the book.

Mr. GILHOOLY: That is right, and I am keying it to the particular paragraph in the book. In this case the claims were reduced by the province before presentation to the federal government. Any inadmissible charges were deleted by the provincial auditor, to the extent in one year of almost one million dollars.

Mr. FLEMMING: I am wondering why the Auditor General put such a paragraph in there.

Mr. HENDERSON: The point is the working papers of the provincial auditors actually reveal these instances of fraudulent and irregular practices. The fact they have been deleted and the item paid later does not alter the fact that an attempt was made to carry out these practices. We do not think it is proper.

Mr. FLEMMING: That is the understatement of the year.

Mr. HENDERSON: I spoke earlier of Quebec, and you may be interested to know that in the 1962-63 fiscal year the provincial auditors found irregular claims had been made on the winter works fund in that province totalling over \$930,000. This account, which was put out by the municipal affairs department of the province goes on to say that a few were cases of pure fraud involving falsification in the claim to the number of hired workers, and salaries claimed for

fictional people or men who were not actually employed on winter works projects. The great majority of abuses are looked on as irregularities, however, and the list is staggering.

It then goes on to list them: hiring of workers who were not actually unemployed; withholding by the municipalities of 10 per cent of employees, salaries to defray the cost of materials; salaries claimed for meal allowance; salaries paid off at the expiration date of the agreement; salaries paid to permanent employees of the municipality; costs claimed for the renting of tractors and horses; charges made for administrative costs paid to regular employees of municipalities; salaries claimed for ineligible work and salaries claimed by municipalities for an amount higher than was actually paid.

Now, our understanding, Mr. Flemming, is that when these claims come in and when these situations are detected, the claims are reduced. I do not suppose they are able to eliminate all of them, but they are seeking to do the best job they can. That is why we do our best to keep *au fait* with the manner in which the provincial auditors are carrying out their work. It is a matter of considerable concern and we find, as I mentioned here in a case of two of them, they have been actually doing little more than checking the arithmetical accuracy.

Mr. FLEMMING: Mr. Chairman, I go back to my original premise which was that if the examination is made more carefully before the project is undertaken and the ground rules laid down, then it seems to me that a good deal of this might be avoided or at least minimized.

Mr. KENT: We have interpreted the Auditor General's report as an indication of the considerable number of practices which would not be proper under the terms of the program which are screened out, in fact, at the level of the provincial audit. We clearly understand that if there is this volume of practices which have to be screened out at that level, then there must be a danger that there is a considerable volume of problems that survive that screening. For that reason, in the light of the Auditor General's report, in laying down the conditions for the program this year we attempted, in the way that we have commented on the individual points, to strengthen the provision that has to be made in the certification of the claim. We would expect that the effectiveness of the screening would in future be considerably greater. We hope it already has been, indeed I think the evidence is that it has been really pretty effective, considering the nature of this program. But we expect it to be considerably more effective from now on.

Mr. FLEMMING: Just to conclude this. Up to now a matter of \$136 million has been paid out under the program. This is a tremendous item of federal expenditure. I have no doubt that you gentlemen would subscribe to the fact that the program is under better control, but I believe that it is not good enough to do a bit of auditing after the damage has been done. I think that the rule should be set forth and stringently imposed on the municipalities, and whoever is concerned, so that there will be that restraint at least. They will expect that they are going to be supervised and supervised very carefully.

Mr. BALDWIN: Mr. Chairman, I have a question I wish to ask Mr. Gilhooly. Irrespective of who makes the formal claim for the municipality, it appears that somewhere along the line some person deliberately and consciously made a fraudulent and misleading statement.

Now, would your research and your examination indicate that in many instances there have been either disciplinary and/or criminal proceedings taken?

Mr. GILHOOLY: As the question was directed to me, although perhaps more properly to the department, I think I can state that there have been both disciplinary and criminal actions taken in the case of fraudulent claims.

Mr. HENDERSON: If I might make a statement on the subject, Mr. Chairman, it is of some concern to us that the paragraph you are discussing deals with the work during the 1964-65 fiscal year. Now, I shall shortly be reporting to the house on our work for 1965-66, which covers the fiscal year before Mr. Kent, and his associates under the present arrangement, took over. I have to tell you that our examinations during the 1965-66 year of the provincial and municipal records and the reports of the provincial auditors relating to the claims for this 1964-65 year, do in fact show a continuation of substantially the same questionable practices as we noted in the paragraph you are now examining for the previous year. We are therefore hoping that the improvement will manifest itself during the year 1966-67, which will mark the first year under Mr. Kent's direction.

Mr. BIGG: Would it be in order for me to say that this committee is alarmed at the situation and we would like the Auditor General to read the Riot Act to the provincial auditors?

The CHAIRMAN: I think that is understood.

Gentlemen, just before we adjourn, my apologies to Colonel Fortier and his staff for not having reached his portion of the meeting this morning. We will call on you again, Mr. Fortier.

Mr. FLEMMING: At some point could we have Mr. Kent and his assistants here to have a discussion on this question of interference with woods operation by the—

The CHAIRMAN: Oh, yes.

Mr. FLEMMING: This is a point I brought up before. I know as a rule we do not have time, but I was just wondering if Mr. Kent could deal with this.

Mr. KENT: I could comment briefly on this. This is a problem, as you will appreciate, Mr. Chairman, that has been brought quite forcibly to our attention. There is no doubt at all of its reality. In certain limited areas the supply of labour for the woods this winter, and I think this has been true on occasion in the past, is less than it might reasonably have been expected to be if it had not been for the municipal winter works. The problem, of course, from the point of view of the department, is that under the terms of this program it is an offer made to all municipalities through the provincial governments and I think it would be understood, Mr. Chairman, that we are not in a position to refuse municipalities' applications.

Mr. FLEMMING: I realize that. Mr. Kent, would it not be possible, and do you not think it is advisable, when the project actually comes about to bring it to their attention? As one of the pulp and paper executives said to me, "Our only choice in the matter is to try to do more by automation because we just do not have enough people to do the work which we have to do in the winter season".

I think that is pretty serious from the point of view of any industry that is as vital to the country as is the pulp and paper industry. These were his comments, that we have no choice except to try to get more machinery and to indulge in more automation because we do not have the people.

Mr. LEFEBVRE: The winter works program is—

The CHAIRMAN: Gentlemen, just one minute, please. In looking over our program for next Thursday November 24, Colonel Fortier, if you could be here we would be pleased to have you as the first witness.

Now, gentlemen, when you come to the meeting tomorrow afternoon at 3:30 bring along your November 17 *Hansard* and also your estimates book.

Mr. LEFEBVRE: Where will this meeting take place, Mr. Chairman?

The CHAIRMAN: Room 307. You should bring these two books with you tomorrow afternoon at 3.30.

—The committee adjourned.

APPENDIX "16"

MUNICIPAL WINTER WORKS INCENTIVE PROGRAM
FEDERAL GOVERNMENT PAYMENTS BY PROVINCE
1964-65 and 1965-66

Province	1964-65	Payments to Oct. 31, 1965.
		1965-66
	\$	\$
Newfoundland	209,199	236,656
Prince Edward Island	273,280	304,919
Nova Scotia	119,074	430,138
New Brunswick	393,901	592,685
Quebec	24,096,268	21,748,166
Ontario	6,365,534	4,644,254
Manitoba	1,208,570	832,304
Saskatchewan	1,441,756	1,520,345
Alberta	2,222,642	2,837,638
British Columbia	3,997,568	3,641,075
Northwest Territories	19,325	87,435
Indian Bands	142,774	182,647
TOTALS	40,489,891	37,058,262

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Trans-
lation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

10

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 28

WEDNESDAY, NOVEMBER 23, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. Long, Assistant Auditor General; and Dr. George Davidson, Secretary of the Treasury Board.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Schreyer,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Stafford,
Mr. Cameron	Mr. Morison,	Mr. Tardif,
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Dionne,	Mr. Noble,	<i>neuve-Rosemont</i>),
Mr. Flemming,	Mr. Prittie,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, November 23, 1966.

(38)

The Standing Committee on Public Accounts met this day at 3.55 p.m. The Chairman, Mr. Alfred D. Hales, presided.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Dionne, Flemming, Forbes, Hales, Lefebvre, Morison, Muir (*Lisgar*), Noble, Tardif, Tremblay, Tucker—(14)

Also present: Mr. Ralph Cowan, M.P.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Laroche, Buzza, Cooke and Hayes of the Auditor General's office; Dr. George F. Davidson, Secretary to the *Treasury Board*; and Messrs. Mackenzie, Yeomans, Glashan and Driscoll, Treasury Board officials.

Following a discussion concerning Vote 15 and the mid-November payment of Public Service salaries falling within the Orders of Reference from the House, the Committee agreed unanimously to hear a statement by the Auditor General and the Secretary of the Treasury Board.

The Auditor General read a statement concerning the form and content of the Estimates, with particular reference to the Revised Vote Pattern introduced in 1964-65, Interim Supply and use of the Finance Contingencies Vote.

The Committee ordered this statement to be appended to today's Minutes of Proceedings and Evidence. (*See APPENDIX "17"*)

The Secretary of the Treasury Board was heard on the Auditor General's statement and was questioned thereon.

The Committee also interrogated the Secretary of the Treasury Board and the Auditor General of Canada, respecting the mechanics of arranging the payment of the mid-November salaries of the Public Service.

At 5.50 p.m. questioning continuing, the meeting adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY, November 23, 1966.

The CHAIRMAN: Gentleman, I see a quorum. At our last meeting yesterday morning an agreement was reached in Committee wherein your Chairman mentioned statements from the House of Commons debates of November 17, 1966 made by the President of the Treasury Board. The Committee unanimously agreed to have the secretary of the Treasury Board, Dr. Davidson, and the Auditor General appear before the meeting on Wednesday, November 23, 1966. We are now assembled for this purpose.

Before proceeding I would like to bring to your attention one request that the hon. Mr. Benson made in the House, and I am reading from *Hansard* of November 17 at page 10002:

Because of the fact, Mr. Chairman, that I do not think we should have a committee of the house forming a judgment with regard to the legal opinion given by a senior law officer in the Department of Justice, I very much regret that I must refuse to have this legal opinion referred to any particular committee of this house. However, I should like again to reassure all members that I acted on the basis of the legal opinion which has been presented to the house.

I would ask you, therefore, in discussion to refrain from referring to that legal opinion.

Gentleman, are we ready to proceed?

Mr. BALDWIN: Mr. Chairman, I would like to ask a question. But before doing so, as I said yesterday, I accepted the view point that, as constituted for this specific purpose, it would probably be idle for this Committee now to deal with the question of the legal opinion. We are probably not competent to sit in judgment of it. However, I would like to file a caveat here that if at some time in the future, with regard to matters properly brought before the Committee by the Auditor General, he has reason to suggest that the view which he takes of a certain action of a government department may differ from the view that the government takes, that does not stop us at that time, if his view is supported by legal opinion, from discussing generally the view of the Auditor General vis-à-vis the view of the department authorities. I simply wanted to make it plain that while agreeing at this time with Mr. Benson's suggestion which we adopted yesterday, I wanted to make it clear by filing this as a caveat with regard to our future practice.

Having said that, I would like to ask the Auditor General if he would make a general statement in connection with the wording of vote No. 15. He may perhaps have something to say about its historical background, or the likely effect if continued, bearing on the issue which has been discussed by this Committee and in the House.

Mr. TARDIF: I was not here yesterday, Mr. Chairman. I wonder, therefore, if my hon. friend would read vote No. 15 to which he is referring.

Mr. BALDWIN: Does the Auditor General have the wording of vote No. 15 in the estimates? Perhaps Dr. Davidson might have it.

Mr. MUIR (*Lisgar*): Mr. Chairman, I was wondering if Dr. Davidson would like to make a statement to the Committee?

The CHAIRMAN: We have the suggestion before the Committee that the Auditor General be heard at this point. What are the wishes of Committee members on this matter?

Mr. TARDIF: I would like to know what this vote No. 15 is about. I was not here yesterday.

The CHAIRMAN: I think when the Auditor General makes his statement it will be outlined as a contingency vote in the department.

Mr. TARDIF: Is the Auditor General going to make a statement on vote No. 15, or is he going to tell us what vote No. 15 is; so that we can find out whether we agree that he should make a statement on it or not.

Mr. A. M. HENDERSON (*Auditor General*): May I answer that, Mr. Chairman? I propose to make a statement concerning the form and content of the estimates, with particular reference to the revised vote pattern introduced in 1964-65, interim supply and the use of the finance contingencies vote, because they all tie together in an understanding of the matter.

Mr. TARDIF: But has this particular question been referred to this Committee?

The CHAIRMAN: Yes, it has, Mr. Tardif. I read into the minutes of our meeting the other day, which you were unable to attend, Mr. Benson's approval as stated in *Hansard*, of our discussing vote No. 15 in this Committee. Would you like me to read this?

Mr. TARDIF: Thank you, Mr. Chairman, but that is not necessary. But is the reference to this Committee not an order of the House rather than an order of one of the ministers?

The CHAIRMAN: Well, Mr. Tardif, I would say that this has been referred to the Committee, because the Auditor General's report of 1964 and 1965 as well as Public Accounts has been referred to this Committee by the House. There is a reference to vote No. 15 in the Public Accounts report, and in the Auditor General's report there are paragraphs that have to do with the vote and pattern system. At paragraph 9, page 7, we have the form and content of the estimates, and on page 22, paragraph 51, we have the revised vote pattern. So, I would think under those three points we would be in order, but I am in your hands.

Mr. BALDWIN: Mr. Chairman, if there is any person I hate to raise a point of order against it is my very genial friend Mr. Tardif, but I would point out that the Committee did come to a decision which I think is, in effect, an order of the Committee. I think it is very difficult under the rules which prevail in the House, and which consequently must prevail here, that when the Committee has come to a decision it cannot be the subject of any further discussion or debate. The Committee did come to this agreement; unfortunately Mr. Tardif was unable to

be here at the time, but it was made an order of the Committee and I think we are now pursuing what the Committee decided to do at the last meeting.

Mr. TARDIF: I agree with you. What is referred to this Committee is not referred by the Committee to the Committee, the reference is a reference from the House to the Committee.

The CHAIRMAN: Well, Mr. Tardif, the Committee agreed the other day to have this meeting, and it was unanimously agreed to have this explanation made to the Committee by Dr. Davidson and the Auditor General. I can do nothing more than abide by the wishes of this Committee.

Mr. TARDIF: When I talk to you, Mr. Chairman, I want you to know that my reference is never personal. I am only referring to you in respect of the very important position you hold in the Committee.

The CHAIRMAN: I understand that. Maybe you could include "difficult" there.

It is agreed that we now proceed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, Mr. Baldwin, as I understand it, you asked the Auditor General if he had a statement to make?

Mr. BALDWIN: Yes, a general statement with regard to the point which is before us and which would include, so far as it falls within the terms of reference, an historical background of this vote, the changing in pattern—coming under the new revised pattern of estimates—and, as I say, special reference to the question which appeared to disturb members of the Committee at the last meeting. I think the Committee can take judicial notice of the fact that it has been the subject of discussion in the House. I think this falls within the terms of the statement I would like Mr. Henderson to make.

The CHAIRMAN: If this scheme meets with your approval, I will call on Mr. Henderson and then Dr. Davidson following that. I would ask you to make notes of questions that you want to ask either of these gentlemen. We will proceed now with Mr. Henderson.

Mr. HENDERSON: Mr. Chairman, my statement is, of necessity, of some length. I estimate it will take about 20 minutes to deliver it. I give you this notice in advance because some members of the Committee might feel that perhaps I am talking too much, but may I explain to you that this is a highly technical subject with a lot of ramifications, and it is essential, I think you will agree, that it be presented just as fairly and as helpfully as possible, and I give it to you in my capacity as your advisor.

Accordingly, I have committed it to paper, Mr. Chairman, and I will give copies to the clerk in order that members might have copies in front of them to follow. We will come to tables of figures, and I do not propose to read them all but by having them in front of you you will be able to see the relationship of one set with another. In that respect I hope that it will constitute a useful reference for you.

I will start reading, Mr. Chairman, while copies are being delivered, in order to save time.

My purpose here is to set down in proper sequence various changes which have taken place in the vote pattern over the past three years. I do so because I

believe that these changes have contributed to an erosion of Parliament's traditional role in controlling public funds and that it is important members of this Committee and the House understand their significance.

So far as Interim Supply and the use of Finance Contingencies Vote 15 is concerned (in the context of the discussions in the House last week), I shall endeavour to show how these fit into the pattern we find today. Although I refer to facts and figures taken from the Public Accounts and Treasury records, I wish to make it quite clear that I have not carried out an audit of the transactions involved in the mid-November salary payments.

As to the general background, first I should remind you of discussions we have had in the past concerning the form and content of the Estimates, in particular the study given to this subject three years ago by a subcommittee of the Public Accounts Committee. You will remember this subcommittee was formed to study a proposal put forward by the staff of the Treasury Board for a consolidation of existing votes. The Royal Commission on Government Organization had pointed out that the Main Estimates 1962-63 included 495 votes, or over three times the number employed in the United Kingdom Parliament, and added that "rationalization and a reduction of the number of votes would make the definition, planning and control of activities more effective, and would give management greater flexibility in achieving its objectives."

As you know, this was done and the results of the reduction brought about are evidenced today by the fact that the Main Estimates 1966-67 include only 243 votes. This 50 per cent reduction has taken place despite the fact that the Main Estimates 1966-67 call for \$4,908 million, or 23 per cent more than was the case four years previously.

It may be helpful if I just review in detail what took place in November 1963 and briefly refer to some changes since that time.

Consolidation of Votes or New Vote Pattern 1964-65

When the Secretary of the Treasury Board appeared before the Public Accounts Committee at that time he outlined the Estimates processes and spoke about one of the principal recommendations of the Royal Commission on Government Organization, namely that there should be a far greater decentralization of financial control by the central agencies to the departments. He explained the thinking of the Board in terms of program budgeting, study of which was then getting under way. Basic to all of this was a reduction in the number of votes because, as I have quoted from the Royal Commission report, this would "give management greater flexibility in achieving its objectives."

The Committee was asked to approve the reduction, or consolidation of votes as it was called, so that the new reduced vote pattern could be introduced into the Estimates 1964-65.

The straight proposition of reducing the number of votes was and is very important because it touches directly on Parliament's control of public funds. It may render life much easier administratively for the management, or the executive in this case, but it also can reduce parliamentary control because fewer votes can result in fewer opportunities being available to Parliament to discuss proposed expenditures, e.g., supplementary estimates.

I have stated to the House and told you in Committee over the past several years about improvements which in my opinion are long overdue in the manner

in which Estimates are presented to Parliament. I have always believed public spending at the level it has reached today makes it essential that the Estimates be presented to Parliament in the clearest and simplest manner which can be devised. I think the present wording of the Main Estimates and Supplementary Estimates tends to be far too technical and with not enough understandable supporting details in many cases. If Estimates are not so presented to Parliament, then how can Members of Parliament give the proposed spending the scrutiny it deserves and be able to approve it on behalf of the Canadian taxpayer?

At that time the Committee had endorsed most of my suggestions and had made them the subject of recommendation to the House. However, no executive action had been taken on most, and as you know in two cases none has been taken yet, three years later. Consequently, reducing the number of votes while still leaving the existing method of presentation unimproved seemed to me "like putting the cart before the horse". I said I thought the effect might well be to lessen parliamentary control and my officers and I cited numerous examples of this from the proposed new consolidation planned by the Treasury Board for the 1964-65 Estimates. In our Committee meetings we suggested a number of improvements in the proposed new consolidation all of which the representatives of the Treasury Board undertook to carry out. In due course the subcommittee reported and it was in its Third Report 1963, presented to the House on December 19, 1963, that this Committee recommended "adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee".

I have since considered it my duty to follow the implementation of this Committee recommendation closely. The first results are to be found in paragraph 51 (page 22) of my 1965 Report to the House which, as you know, is still awaiting discussion on this Committee's agenda.

From this you will see how the vote pattern actually adopted for the 1964-65 Estimates differed in a number of instances from the pattern which had been seen and approved by the Committee. You will see here examples of transfers made of funds between services which would not have been possible under the previous vote pattern. Last year it seemed to me important that I bring this to the attention of the House and I may say that similar differences have been noted again this year and will be the subject of further comment in my forthcoming Report to the House for 1965-66.

I will turn now to some defence notes, first to the votes of the Department of National Defence and then to the Department of Defence Production, two of our large spending departments.

As you know, appropriations for the Department of National Defence now consist of only ten votes. One of them by itself, Vote 15, "Operation and Maintenance and Construction or Acquisition of Buildings, Works, Land and Major Equipment and Development" in the Main Estimates 1966-67 amounts to \$1,420 million—that is, 95 per cent of all the National Defence spending or 18 per cent of the Government's total Main Estimates is now consolidated in this single vote. I may say this consolidation exceeds Treasury Board's undertaking to this Committee three years ago when the Committee approved the Revised Vote Pattern.

Section 29 of the Financial Administration Act requires each departmental head to "prepare and submit to the Treasury Board through the Comptroller a division of such appropriation or item into allotments in the form detailed in the Estimates submitted to Parliament for such appropriation or item, or in such other form as the Board may prescribe, and when approved by the Board the allotments shall not be varied or amended without the approval of the Board, and the expenditures charged to the appropriation shall be limited to the amounts of such allotments". That is the wording of the law.

It is under this provision of the law that the Treasury Board controls the individual segments of allotments making up the appropriation approved by Parliament. The allotments are shown in the details of services following the Estimates in the Blue Book and, although the allotments can be varied or amended within the amount of the appropriation with the approval of the Treasury Board, money cannot be expended in excess of either the total amount of each allotment or, of course, of the appropriation.

On October 14th last I pointed out to Dr. Davidson how transfers between the allotments into which the appropriations of the Department of National Defence are divided had been approved by the Deputy Minister of the Department, rather than by the Treasury Board. I asked if I could be advised of the authority relied upon by the Treasury Board for permitting this Department to vary its allotments without the Board approval required by section 29 of the Financial Administration Act. I have not yet had a reply to this letter.

Whenever an appropriation is provided for purposes to be determined by the Executive, parliamentary control is weakened. Similarly when the Executive is permitted to accumulate revenues to be used at its discretion in future years, the control normally exercised by Parliament is reduced.

An example of this may be found in paragraph 60 of my 1965 Report where I point out that the Department of Defence Production was holding \$1.8 million in its Revolving Fund against the day that it may suffer losses under sales contracts or with respect to strategic materials. We discussed this in the Committee on November 1st. The Department thinks this is in order but I do not agree because I do not believe that Parliament intended that the Executive should be relieved of its dependence on Parliament for funds to cover losses it might suffer.

Another example which came into being in 1965-66 is Vote 48 of the Department of National Defence. This is a dollar vote by which Parliament has authorized Executive to accumulate in an "Open Account" all the proceeds from the sale of surplus materials, supplies and equipment and up to \$5 million from the proceeds of the sale of surplus buildings, works and land and to spend these funds with the approval of Treasury Board in any year. At March 31, 1966 there had been no expenditures from this account and the balance stood at \$9,073,000. I believe the balance is close to \$19 million today. This account may be built up in this way year after year while appropriations are available and thus serve as a cushion to soften the effect of any reduction Parliament may wish to bring about in National Defence spending in the future.

I might also refer to the National Defence Equipment Account which was set up in 1950 and closed out in 1958-59. This account was referred to by the then Minister of Finance in his 1958 Budget Speech as follows:

"... we propose to eliminate the balance remaining in the national defence equipment account. This account was set up in 1950 when NATO was being organized, and to it was credited the value of all equipment given by Canada to our NATO allies. At its peak there was about \$310 million in this account. The former government drew on this account from time to time by charging to it, and not to budgetary expenditures, the cost of replacing such equipment. On the basis of past practice there would be about \$165 million in this account at the end of this year. We believe that in the interests of good accounting practice and the maintenance of proper parliamentary control of expenditures this account should be liquidated during the current year."

Reference to this comment will be found on page 5 of my predecessor's 1959 Report to the House.

The Department of National Defence has yet another account which the Executive may use at will to supplement parliamentary appropriations for the purchase of materiel. This is the Replacement of Materiel Account which is authorized by section 11 of the National Defence Act and which contained a balance of \$634,000 at March 31, 1966. The account is credited with the proceeds from the sale of materiel, which is not surplus but which is not immediately required, to such countries or international welfare organizations on such terms as the Governor in Council may determine. The largest year-end balance in the account was \$18 million at March 31, 1958.

We now come to the Finance Contingencies Vote.

The Finance Contingencies Vote as it appears in 1966-67 itself represents a consolidation of votes. Up to and including 1963-64, two of the Finance votes had been Vote 70 for the supplementing of salaries, wages and other payroll charges and Vote 50 for miscellaneous minor and unforeseen expenses. These were combined by the Treasury Board into Vote 15 in 1964-65 under the Revised Vote Pattern I have described, and for that year and 1965-66 the vote was worded: "Contingencies—Subject to the approval of the Treasury Board, (a) to supplement the payroll provisions of other votes; (b) for miscellaneous minor or unforeseen expenses; etc." Now in the Estimates and the Supplementaries tabled in the House for 1966-67 the wording is simpler: "Contingencies—To supplement other votes and to provide for miscellaneous minor and unforeseen expenses... and authority to re-use any sums repaid to this appropriation from other appropriations."

Recently I noted how the Secretary of the Treasury Board had advised deputy heads ten years ago (Treasury Board letter of November 26, 1956) that there would be no objection to the making of transfers from the salary allotment to another allotment within a vote even though that salary allotment had been supplemented by a transfer from the general salaries vote provided that that transfer had taken place to meet requirements arising out of a general salary revision.

You will, I am sure, agree with me that when such a transfer is made the final result is that the general salaries vote has in effect been used to supplement allotments other than the salaries allotments in other votes. In other words, if the Treasury Board under section 29 of the Financial Administration Act had already approved of a transfer from the existing salaries allotment to another allotment to cover other types of expenses, then as and when it became necessary to replenish the salaries allotment the effect was simply to be using the general salaries vote to supplement other types of spending.

This, of course, was not the purpose for which Parliament provided this general salaries vote and therefore it constituted the application of an appropriation to a purpose not authorized by Parliament. In a letter to the Secretary of the Treasury Board in July 1965 we asked if we might have the benefit of his comments on this practice.

I believe it would be helpful to your understanding if I quoted the pertinent paragraphs of the Treasury Board reply received on September 2, 1965:

"As background to an understanding of the Board's decision in this respect, I should note that departments now preparing to adopt activity (performance) budgeting and accounting were making representations for further relaxation of the Board's current salary-transfer rules at about the same time as you raised your query. It will obviously not be possible, when the improved financial management practices recommended by the Glassco Commission are in place, for the Treasury Board to continue to impose even its present restrictions in this regard without undermining the principle of increased departmental responsibility inherent in those recommendations. The Board, therefore, look forward to further relaxation rather than a tightening of present salary-transfer rules.

"From the legal point of view, Treasury Board does not support the interpretation you appear to place on Finance Vote 15. It considers that the ability conferred by section 29 of the Financial Administration Act to transfer between control allotments is not affected by transfers into a vote from the Contingency Vote and that the salary-transfer rules which now exist were invoked by executive order alone; having been invoked by the Board, the Board considers it can also revoke them.

"Incidentally, the Board has ordered that the Contingency Vote title be redrafted to more simply and clearly indicate its purposes. The present wording is, of course, the result of the deliberate putting together, without major revision, of the wordings of several Votes in the year in which a major consolidation of Votes was undertaken throughout the Estimates (1964-65). Now that Parliament is familiar with the consolidated form of the Estimates, no confusion will result from redrafting of the present somewhat clumsy title of the Contingency Vote."

It seems to me that the Treasury Board was wrong in claiming to have authority to supplement salary allotments from the salary vote even when the reason the allotments require supplementing is that they have been used to supplement other allotments in an appropriation. There is no question, of course, of the authority of the Treasury Board under section 29 of the Financial Administration Act, but neither is there any question that when Parliament votes money for salaries it is to be used for salaries and salaries only and may

not be used for anything else either directly or indirectly. However, this problem will no longer exist unless Parliament refuses to accept the revised wording of Finance Vote 15 which includes authority "to supplement other votes..."

I now come to the methods involved in calculating Interim Supply.

Before embarking on this may I be allowed to say that I think it is highly unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and measures like interim supply would not be required so extensively. It seems to me this would not only strengthen parliamentary control of public funds all round but give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities. It would also ensure a more adequate consideration by the House of spending proposals, all too many of which are now passed under pressure of other business or of an impending recess or adjournment.

Interim Supply is a request by the Executive to Parliament for the release of funds pending approval of the departmental estimates. It is expected that the request will be based on the principle of asking for one-twelfth of the estimated cost of the proposed expenditures (as detailed in the Estimates already tabled) for each of the months lying ahead until (a) it is expected the Estimates will be fully approved by the House, or (b) interim supply has again to be sought from the House.

If the one-twelfth basis is adhered to then it follows that the funds released by an Appropriation Act to each departmental appropriation are sufficient for only the immediate months or period ahead. There would seem to be little leeway from month to month and certainly not to cover any major expenditures beyond the end of the immediate months or period planned. If there is leeway, then it can only be caused by Interim Supply having been sought and obtained on a basis more generous than was required.

If Parliament wishes to ensure that this does not take place, then perhaps the Supply appropriations should spell out the period the Interim Supply is intended to cover, as, for example, until November 30th in the case of Appropriation Act No. 8 passed on November 17th last.

As to the funds available to meet mid-November paylists, it has not been possible in the time available to check any of the balances in the individual departmental appropriations or vote records on the eve of the issuance of the mid-November pay cheques in order to determine the extent to which the balances were approved by Interim Supply authorization.

It should be noted here that as Interim Supply is granted to a vote by an Appropriation Act, the vote records kept by the Comptroller of the Treasury show this Interim Supply Authorization being applied simply to the appropriation, not pro rata to each allotment. Consequently, the transfers authorized under section 29 of the Financial Administration Act are not made during a period of Interim Supply.

The list of departmental votes for which Interim Supply only had been granted, tabled by the President of the Treasury Board in the House on November 17th, shows their individual estimated mid-November salary requirements and states that the votes contained sufficient funds with which these particular requirements could be met. In order to satisfy ourselves on this point,

we asked for a listing of the balances (approved by Interim Supply) in the individual departmental appropriations or vote records at close of business November 9th but were informed this information had not been retained at headquarters. Apparently the Chief Treasury Officers of the Comptroller of the Treasury telephoned these balances into headquarters at Ottawa where they were checked to verify that the salary requirements could be met. As you know from what transpired, they fell short in the case of nine departments by \$2,159,000.

The Interim Supply sought by Bill C-245 and now covered by Appropriation Act No. 8 passed on November 17th was to provide Interim Supply up to November 30th. Viewed from the one-twelfth per month basis already discussed, this should bring Interim Supply approved to November 30th up to eight-twelfths, leaving the remaining four-twelfths for other interim supply requests or total approval of the Estimates during December 1966 and January, February and March 1967.

Appropriation Act No. 6, 1966 completed full Supply for ten departments whose Main Estimates 1966-67 were approved by the House in the summer of 1966. Appropriation Acts Nos. 3, 5, 7 and 8, 1966, have in fact granted Interim Supply to a number of individual appropriations of the following departments at rates of between nine-twelfths and eleven-twelfths of their Main and Supplementary Estimates notwithstanding the fact that four months still remain to the end of the fiscal year: (*See Tables, Appendix 17*).

There you will see the departments and you will observe there were 51 votes that had been granted in excess.

The granting of Interim Supply in excess of the eight-twelfths in areas like these obviously can result in departments having approved funds available in excess of their immediate needs. A good example of this is to be found in Finance Contingencies Vote 15 whose record over the past three years shows that Interim Supply approval has always exceeded the months involved. (*See tables, Appendix 17*)

These are set out for 1964-65, you will observe, and approved on November 5 up to November 30. The normal would be eight-twelfths. They stood approved to the extent of eleven-twelfths and nine-twelfths, or \$35,500,000.

In 1965-66 the approvals are cited earlier because, as you remember, we were on Governor General warrants and we had an election on November 8, 1965. But there again, from a normal of seven-twelfths, they were approved eight-twelfths and ten-twelfths.

In 1966-67, the one you are interested in, before the supply discussion that took place in the last ten days you will observe that they stood approved up to October 31. The normal was seven-twelfths, but they had been approved at \$47,500,000, eleven-twelfths and nine-twelfths. After the Appropriation Act was passed that is after they were approved on November 17, that approval was moved up from the normal of eight-twelfths to the maximum of eleven-twelfths.

As members of the Committee know, Vote 15 in the Main Estimates appeared at \$15 million. In Supplementary Estimates (A) tabled on June 23, 1966 an additional \$45 million was sought and in Supplementary Estimates (C) tabled on November 17th a further sum of \$50 million is requested, bringing

the total required for the Finance Contingencies Vote to date to \$110 million. Position of the Finance Contingencies Vote at November 9, 1966

It will be seen from the table at the top of page 14 that the sum of \$47.5 million stood approved under Interim Supply for Finance Vote 15 up to October 31, 1966.

The records of the Treasury Board show that transfers to supplement votes of Finance and the other departments to cover salaries had totalled \$32.1 million in the current fiscal year up to November 3, 1966 and that \$4.9 million had been transferred for purposes of miscellaneous minor and unforeseen expenditure items up to that date. This left the sum of \$10.5 million available for subsequent transfers. It was out of this balance that the sum of \$2,159,000 was transferred to the nine departments.

Finally, the principal reason why these large sums have been placed in the Finance Contingencies Vote has been to provide for the large-scale salary increases made almost uniformly during the last year or two throughout all departments and agencies of the Government. Many of these are retroactive for a considerable period and the amounts involved are substantial. It is because these changes have been worked out and established by the central agency of Treasury Board that it has not been possible for the individual departments to make any provision in their individual Estimates for the amounts likely to be involved in each of their own cases. It has therefore been much easier to place the total amount involved, so to speak, in the one vote and let Treasury Board divide it up as called for by each department.

This approach may make for smoother administration over-all but runs counter to the very proposals of decentralized authority which the Glassco Commission preached and which Treasury Board now proposes to adopt. I think in circumstances such as these it would be more meaningful and certainly more helpful to the House in its control of the money supply were the amount of the individual departmental requirements for the additional salary money to be the subject of Supplementary Estimates put in by each of the departments concerned—in fact it seems to me that this is precisely what the supplementary estimate procedure is for, namely to bring to the attention of the House unforeseen expenses encountered by a department, e.g., retroactive salary revisions. If a change like this were to be made, then the Finance Contingencies Vote could be returned to its original concept, namely that of a small fund to be retained for unexpected and unforeseen items. That completes my statement, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Henderson. Are there any questions at this point?

Mr. TARDIF: In the very first paragraph of this interesting document I see that the Auditor General is fearful there may be an erosion of parliament's traditional role in controlling public funds. Would the fact that a fund is transferred from one account to another, under the supervision of the Treasury Board, make it dangerous for parliament not to control the expenditures of public funds?

The CHAIRMAN: That is in the form of a question directed to the Auditor General.

Mr. TARDIF: It is directed to you, Mr. Chairman. You can get the Auditor General to answer it if you wish.

The CHAIRMAN: Mr. Henderson? Or perhaps Mr. Long has an observation to make.

Mr. HENDERSON: I will ask Mr. Long to answer that.

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Tardif, the theory of parliamentary control is that parliament provides money within the four corners of certain votes. There is a procedure followed in other countries called Virement where transfers between votes can be made by the executive, but this is not a procedure that applies under our system. The one exception to this, of course, is vote 15, which is established for a particular purpose. As for some of the other instances referred to by Mr. Henderson, such as open accounts which are accumulating money these do make money available over which parliament does not have control. The control has been surrendered to somebody else.

Mr. TARDIF: Mind you, I cannot say that we cannot take something good out of the practices that are followed in other countries, but I am particularly interested in the practice that is followed in Canada. I presume this new practice of reducing the number of items in the estimate was submitted to the Treasury Board for their opinion, or maybe it was the Treasury Board, Mr. Chairman, that submitted it to parliament for parliament's approval or opinion.

The CHAIRMAN: Just before I call on Dr. Davidson to answer that question, could I have your agreement to attach this as an appendix to our meeting.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Dr. Davidson, would you like to answer that?

Dr. GEORGE F. DAVIDSON (*Secretary of the Treasury Board*): The specific answer to Mr. Tardif's question, Mr. Chairman, is that it was the Glassco Commission that recommended a reduction in the number of votes, inviting the comparison between our pattern of votes and the United Kingdom pattern of votes to which Mr. Henderson referred. In accordance with the recommendation of the Glassco Commission, the Treasury Board secretariat, under my predecessor, I understand, presented a plan for a revised vote pattern and a reduction of the number of votes to the Public Accounts Committee. This plan received the endorsement in broad general outline of the Public Accounts Committee, subject to certain changes which the Auditor General had recommended. Following that, and with the approval of the Treasury Board, this revised vote pattern with the reduced number of votes was presented to parliament in the Blue Book of Estimates for 1964-65, and through parliament's action in adopting the estimates as presented it received parliamentary approval.

Mr. TARDIF: I have another question, Mr. Chairman, if I may. I know that this document was not intended to be a political opinion, but because I am a politician I think it looks a little bit like there was at least a degree of political opinion in it. However, I will disregard that. Would this new system adopted by parliament at the recommendation of the Glassco report, and with the approval of the Treasury Board, eliminate the practice where departments are often guilty of coming to the month of April and, not having spent all their estimates, they rush out to spend the amount of money they have left in their estimates so

that their estimates will not be reduced the following year, or to make it possible to tack another 10 per cent on their estimates?

Mr. DAVIDSON: If I were to answer that question in the terms in which it is put, Mr. Chairman, I would be acknowledging that this is a practice of departments. The departments have the responsibility, when parliament appropriates money for departmental votes, to spend those moneys in accordance with the plans that have been laid by the departments and that have been approved in the estimates preparation by the Treasury Board. I must say that while the figures do indicate that there is some piling up of accounts at the end of the year, in my experience I have not been able to confirm a deliberate practice on the part of departments to accelerate artificially the spending of money in the late months of the fiscal year merely to be able to keep their spending up to what they regard as a desirable level.

Mr. TARDIF: Well, I thought I had made that question, Mr. Chairman, as easy as possible so that it would not be necessary for you to admit that this is a general practice. I said some departments. I know that it does exist in some departments. I am not saying that they do not use the material they buy, but at the end of the year they say, "We have so much money left in our estimates and we are going to buy so much, because if we do not do this our estimates will be cut by the Treasury Board". Incidentally, this was told to me previous to my being a member of parliament. At that time, Mr. Chairman, they do not speak of the Treasury Board as being an easy or a soft body to convince.

Mr. DAVIDSON: Mr. Chairman, could I merely point out in the calendar of events that by the time the department gets to the end of the fiscal year where it could encounter that situation that you are referring to, its estimates have already been determined by the Treasury Board three or four months previously and the tabled estimates are before parliament prior to the end of the fiscal year.

Mr. TARDIF: I have another question. I do not want to ask all the questions, Mr. Chairman, I just have one or two more and then I will desist.

The CHAIRMAN: We have two other gentlemen waiting, Mr. Tardif.

Mr. TARDIF: All right, I will try to be brief. It would appear from this report that there is a lack of dialogue—and this is a popular word—between the Treasury Board and the Auditor General's department.

The CHAIRMAN: Do you mean communication?

Mr. TARDIF: Well, communication or dialogue, but is there a lack of it?

Mr. HENDERSON: I can assure you there is not, Mr. Tardif.

Mr. TARDIF: All right.

Mr. DAVIDSON: I can also assure you that despite the one unanswered letter there is not, Mr. Tardif.

Mr. TARDIF: This was another one of the questions I was going to ask you. This is a letter from the Treasury Board and it does not indicate who signed it, and I was wondering whether it was a public document or whether permission was asked for and granted to publish it in this report?

Mr. HENDERSON: I do not know who signed it, Mr. Tardif, but I can readily find out.

The CHAIRMAN: Would you like them to find out for you?

Mr. TARDIF: If you please.

The CHAIRMAN: Mr. Muir, Mr. Bigg, and Mr. Cameron have questions. Mr. Muir?

Mr. MUIR (*Lisgar*): Mr. Chairman, I would like to ask Dr. Davidson if the Department of Finance has always had the authority to put in any given amount in the contingency fund, and when was it decided that it would not only cover small contingencies but if a larger sum of money was needed in that particular fund?

Mr. DAVIDSON: Mr. Chairman and Mr. Muir, I think Mr. Henderson's statement outlined accurately and fairly the history of the contingency vote which was, prior to 1963 and 1964, made up of two separate votes. The first vote was labelled miscellaneous, minor and unforeseen items of a non-salary nature, and the second vote—I believe they were votes 50 and 70 at that time—was labelled the general salaries vote.

That general salaries vote had been in existence for some years. I am not in a position to go back and say how long it was, but the salaries vote was, for a good number of years, recognized as the vote from which supplementation of other votes would be made in respect of salaries. This arose largely from the fact that in the pay review process that goes on throughout the year the government from time to time finds itself in the position of awarding a general salary increase across the service that individual departments a year or 18 months previously could not be expected to forecast accurately and provide for in their estimates. Consequently, the concept evolved of a pool of funds, a general salaries vote, from which supplementation could be made under the authority of parliament to individual votes in respect of salaries. This was the pattern that existed.

In 1964-65 for the first time these two votes, one, the vote for miscellaneous, minor and unforeseen expenditures of a non-salary nature and, two, the general salaries vote, were merged, and it was at that point that the size of the total contingencies vote, made up of these two, began to become significant. The size of the contingencies vote has increased substantially over the last three or four years and this is mainly due to the rapid increase in the level of salaries which it has been necessary to pay and the increases that it is necessary to provide throughout the course of the year in order to keep pace with the salary levels in the outside market.

Mr. MUIR (*Lisgar*): Would you agree that perhaps it would be best if the non-salary item was kept in the contingency fund, and that the salaries would be presented to parliament by the individual departments concerned in supplementary estimates? I am thinking about parliamentary control of the money and where it should go. I am afraid it is lost to view in this contingency fund as far as parliament is concerned; we do lose control over the money in the individual departments. Would you agree with this?

Mr. DAVIDSON: Mr. Chairman, I appreciate the concern expressed by Mr. Muir on this matter. I would indicate to him that we at the Treasury Board staff level have been concerned about the growing size of the contingencies vote which, in my opinion, has been unavoidable because of the great acceleration in

salary increases which has been necessary to keep pace with the outside market. Long before this most recent matter came to the attention of the members of parliament in the course of reviewing the program forecasts of the government departments for next year, a review which took place in July of this year, we tentatively decided that we would ask departments in preparing their estimates for next year to build a larger factor into their departmental votes to take care of the salary increases they thought would be required throughout the fiscal year 1967-68. To the extent that this can be done successfully, it should be possible for us to reduce—but not eliminate—the size of the contingencies vote.

The second part of Mr. Muir's question has to do with the suggestion which is also contained in the final paragraph of the Auditor General's report, that supplementary estimates should be presented to parliament for every vote requiring supplementation throughout the year because of the additional salary requirement. I would have to say, first of all, that if this were to be adopted as a practice it would, in my opinion, result in the course of the year in supplementary estimates having to be presented for almost every one of the votes contained in the main estimates which contains a salary requirement. I am personally satisfied, despite our best efforts to include in these departmental votes in the main estimates a factor for salary increases, that there would be a substantial increase in the number of votes for which supplementary appropriations would have to be requested of parliament throughout the year. I am not suggesting that that should be avoided, I am merely saying that parliament would have a larger number of requests for supplementary votes throughout the year.

I would also point out that while the general salaries vote is a single vote in the Department of Finance from which supplementation of salary requirements is made to other departmental votes throughout the year, the public accounts that are presented to parliament and to the Public Accounts Committee, record with respect to each of the departmental votes, the amount that was transferred from the general salaries vote to that particular departmental vote for salary purposes. So, there is an accounting provided, Mr. Muir, in the public accounts rather than in the estimates, showing the use that was made of the money in the contingencies vote to supplement departmental votes for salary purposes.

Mr. MUIR (*Lisgar*): You are now suggesting that perhaps the departments would, shall we say, set up a contingency fund so that vote 15 can be reduced. Do you think we are going to solve anything by doing that? What this actually would amount to is that each department would have a contingency fund rather than putting it through the supplementary estimates. I realize that would make a lot more votes, but in doing so I think parliament has a more direct look at it than it has through the Public Accounts Committee where transfers are made. I am not suggesting there is anything wrong with Public Accounts looking over the transfer of money. This is fine. After all, we represent parliament. But I am talking about parliament's direct control of the money, and I think by setting up a fund in each department which could be called a contingency fund we are not actually solving anything except that we are probably reducing the votes.

Mr. DAVIDSON: Mr. Chairman, I would not want the impression to get abroad that what is contemplated is the setting up of another contingencies fund. It must be recognized, however, that the details of the estimates which are presented to parliament are the best estimates the department can make at the time as to what its salary requirements will be for the coming year. In the case of an

individual vote that estimate can be made in one of two ways. It can be made in September, October or November, for next year, in terms of the salary commitments that the department knows it has at this precise moment. This method of calculation assumes there will be no salary increases given to anybody next year; it assumes there will be no increases in establishment. This would represent what you might call the minimum estimate of what the dollar requirement would be for next year.

Alternatively you can go as far above that, in terms of trying to make a more realistic forecast, as you wish. You can have each department make its own assumptions as to what the level of salary increases will have to be. You can have the department cost each one of its positions for the full 12 month period, as though every position were going to be filled for the full 12 month period. The point I am making is that there are a lot of factors that enter into the attempt to estimate what the dollar requirement for salaries for a given vote for a given department will be in the year ahead. In saying that we were endeavouring to get the departments to build into their departmental estimates some of the additional salary requirement which up to now has been carried in the general salaries vote, all that I was saying was that we were asking them to include in their salary estimates an item that would represent a prudent estimate as to what the increased amount might be that they should build into their departmental salary estimates, rather than draw from the contingencies vote. The percentage we have suggested to the departments, Mr. Chairman, is 3 per cent.

Now, the danger of this, and I am frank in admitting it to the Committee, is that if you have 26 departments building some kind of protection or insurance concerning this factor into 295 votes, you are more likely to end up asking for more money than you will really need, than if you consolidate the requirement into one single general salaries vote. It was this view of the matter that led predecessor governments, including the present government, to conclude that instead of letting individual departments forecast by individual votes what amounts of money they would need to pay salary increases that had not yet been decided upon by the Treasury Board, it would be more sensible for the Treasury Board, which is the agency that has to decide on the salary increases, to budget through a general salaries vote the total requirement for the service as a whole, and then ration this out to the departmental votes as the occasion arises.

The CHAIRMAN: Now, Mr. Bigg and then I think Mr. Cameron wished to speak.

Mr. BIGG: It is difficult to carry on. We have had nothing but questions and answers but I would like to say a word, if you will bear with me, on principles. This whole matter came up because of an emergency, and it seems to me we are in danger of sacrificing our principles in the name of emergency or in the name of efficiency. Although I have great sympathy with all public servants in trying to streamline and cut down the difficulty of our carrying on 265 votes, I am really seriously worried about the erosion of parliament's power over the spending part of the executive. To be specific, I see within the present context that it is within the power of deputy ministers, rather than parliament, to decide where our public money is going to be spent. Once we are sure that the Deputy Minister or the Minister needs that money, that is fine. We know it has to be done efficiently within the department, but when we vote money we want to

know as nearly as possible exactly where it is going, and we do not want to lose the very small control we have over the spending of money. Certainly we do not want to lose it by having the responsibility put back upon this particular Committee. I would not say this Committee was blamed, but the explanation was that it was quite all right to go ahead with it regardless of the argument about legality because this Committee had approved of it, and I say if this Committee did approve of it that the Committee did not know the end result of approving this sort of thing. If we did, which I doubt, then from here in I do not think we are going to approve of this particular erosion.

My question is—and it can be answered by either Dr. Davidson or Mr. Henderson—what real argument is there in favour of these carry-overs from one year to another? Dividing it into 12, and so on, is rather difficult and complex, but why should we carry over from one budget to another, as I see it, in the name of efficiency when this definitely takes money control out of our hands?

Mr. TARDIF: Mr. Chairman, I think a correction should be made regarding Mr. Bigg's statement that this Committee approved of this. This Committee does not have the power of approving an expenditure; parliament has that power.

Mr. BIGG: I am merely quoting the present minister.

The CHAIRMAN: No, I believe Mr. Bigg was referring to what Public Accounts approved in 1963.

Mr. BIGG: Yes, I was speaking of the changes in vote 15 which makes this matter legal and advisable.

Mr. BALDWIN: That was subject to the recommendations made by Mr. Henderson as well. These were all included in the recommendation, they were a package, and they have to be approved by parliament and not by this Committee.

The CHAIRMAN: Recommended by the Committee. Now, Mr. Bigg has asked a question—

Mr. BIGG: My question was could someone tell me why it would be more efficient to carry over large sums of money in this matter and, in fact, get around supply motions?

The CHAIRMAN: —and then following that, we will ask the Auditor General how it fits in with the audit end.

Mr. DAVIDSON: I think the simple answer, if I understand Mr. Bigg's question correctly, is that except in the case of individual exceptions that are specifically approved by parliament, it is not possible to have carry-overs from one year to another. Are you referring, Mr. Bigg, to the reference that Mr. Henderson made to a vote in the Defence Department's appropriation?

Mr. BIGG: Yes, that is an example but it is not the only example.

Mr. HENDERSON: Perhaps you might like to use that as an example.

Mr. BIGG: Yes, possibly the principle would apply to other departments if it is sound in this one.

Mr. DAVIDSON: Well, my point is that this is the exception rather than the rule so far as the appropriations generally are concerned, so far as these 295 votes we are talking about are concerned. I think Mr. Henderson would agree

that in the vast majority of them, at the end of the fiscal year, or 30 days after the end of the fiscal year, the funds that are unspent as of that date lapse. It requires a specific authority, given by a specific vote wording that is specifically approved by parliament itself, to authorize what you have referred to as the carryover.

I come now to the reference to the National Defence vote. I think that this is the one in which there is a dollar vote by which parliament has authorized the executive to accumulate in an open account all the proceeds from the sale of surplus materials, supplies and equipment, and up to \$5 million from the proceeds of the sale of surplus buildings, works and land, and to spend these funds with the approval of the Treasury Board in any year.

Mr. BIGG: For any purpose?

Mr. DAVIDSON: For any national defence purpose that is approved by the Treasury Board, but the Defence Department would have to come to the Treasury Board with a proposal and obtain the Treasury Board's approval before it could spend any funds from this vote and, as Mr. Henderson indicates, as of March 31, 1966 there have been no expenditures from this account. Mr. Henderson explained, first of all, and I point this out to Mr. Bigg, that this vote wording was requested of parliament and approved by parliament. Therefore, if one disagrees with the existence of this vote, I do not know whether one is disapproving of the action of the executive in asking for this authority or whether one is disapproving of the action of parliament in giving the authority.

Mr. BIGG: You are only indicating this to me.

Mr. DAVIDSON: I would like to make the point that this authority to set up this special account was requested of parliament and parliament, after due deliberation, decided that it was a reasonable request and granted it. I think perhaps one has to make a rather large assumption in that statement but allow me to make that assumption for purposes of the argument.

Now, why did the executive ask for this? This takes me back to Mr. Glassco and the report of the Royal Commission on Government Organization. Mr. Glassco made the point that departments tended to accumulate material, supplies, equipment and property, and they seem to be reluctant to get rid of it. Even though a department might have no evident use for a piece of property it had inherited or acquired in previous years, departments were slothful, if you like, or sluggish or reluctant for one reason or another to initiate action to clear out their surplus materials from their inventories, or to dispose of pieces of property that were just lying on their hands and serving no useful purpose. Mr. Glassco said, rightly or wrongly, that in order to provide some incentive for departments to get rid of this surplus, some method should be devised by which they would get some credit to their appropriations for the material they disposed of, and if this were done they might then be more disposed to clean house and get rid of the materials and supplies they had in the attic than if the proceeds of these sales merely reverted to the consolidated revenue fund.

In conformity with this it was agreed by the Treasury Board and put to parliament and approved by parliament that an attempt should be made to test out the validity of this proposition in the Department of National Defence, and that the Department of National Defence should be authorized to dispose of its surplus items such as the underwear, neckties and other items of equipment that

have been the subject of some comment in previous years. Parliament agreed that the department should be able to retain the proceeds from much disposals in an account for the use of the Department of National Defence, rather than have them revert to the consolidated revenue fund.

This authority was given in two stages. The first stage was with respect to equipment and supplies. The second stage was given with a limited authority, to the extent of \$5 million only, with respect to proceeds from the sale of surplus land and buildings, and so on. The Treasury Board decided that it would experiment with the Department of National Defence to see how Glassco's recommendation works; that it would impose limits in so far as the disposal of real estate is concerned; that it would make the use of these funds subject to the specific approval of the Treasury Board, and that it would not extend this practice to other departments until it had had enough experience with the Department of National Defence to indicate whether the extension was practical and justified. Now, that is the history, Mr. Bigg and gentlemen, of this particular point.

Mr. TARDIF: That, Mr. Chairman, is equivalent to giving a bonus to a man for doing the job he is paid to do.

Mr. BIGG: My question, as I remember it, had to do with carry-over. Why should this be carried over for an indefinite period? This has been going on now for some years and no money has been spent out of it. I really do not see why the Department of National Defence should enjoy having a fat balance in the bank which they are not going to use, which they never have used and which, in my opinion, they should never be allowed to use. I do not see any particular incentive at all, unless the money is going to be used on some occasion for some purpose other than that which parliament intended. This is the principle I am thinking about. This might be streamlined, it might be very nice to keep certain department heads feeling good, but is that good enough for good accounting purposes and good accounting to Parliament for where the money is? I assure you this is a great surprise to me.

Mr. DAVIDSON: I can assure you, Mr. Bigg, that it is printed in the estimates of the department.

Mr. BIGG: This is an argument for consolidating the information so that I can get at it, and all that sort of thing. I wish I had time to read the Blue Book. I am very much impressed with the idea of streamlining but I am not impressed with the erosion of power by a representative of the people in keeping track of the public purse.

The CHAIRMAN: Dr. Davidson, I understand that this amount of money in the Department of National Defence can only be spent with the consent of the Treasury Board and within that department.

Mr. DAVIDSON: That is right.

The CHAIRMAN: You had a question, Mr. Cameron?

Mr. CAMERON (*High Park*): I have been debating whether to ask my question. It really goes back a long way to a statement, not a question, by Mr. Tardif where he said there is a practice of certain departments to accelerate their spending so that their estimates for the year which had been approved would be used up and they would not have to carry anything forward from the previous

year. You said you agreed with that statement, indicating that such a practice existed. I would like you to go further and say whether in your experience you have seen anything out of the ordinary or normal practice of a government department which followed that practice suggested by the hon. member?

Mr. DAVIDSON: Mr. Chairman, I have been in the public service in a fairly senior capacity for 22 years, and in that time I have seen a lot of things. In those 22 years I would have been blind if I had not seen what I thought to be individual instances where some officer, at the end of the year, would stock up on an item of equipment that he knew he was going to need in the year ahead and that he knew he would have to buy out of next year's appropriation if he did not buy it out of the year's appropriation that was just about to expire.

Having said that, I want to say to the Committee as firmly as I can that I have not seen this in terms of a widespread practice, or a practice that one could regard as involving large scale expenditures or large scale accumulations of equipment or materials, that would represent a gross abuse of the methods by which parliament appropriates funds. Now, this is a matter of judgment and you may disagree with my judgment if you like but I can only repeat that in 22 years I have not seen what I have regarded as being extreme or blatant examples of this in the departments with which I have had direct contact.

Mr. TARDIF: Mr. Chairman, I did not say that this was general, but I do know of some cases where a department has said that even if you cannot ship it before April 28 your invoice must be dated before April 28 because it is necessary for us to use our appropriation before the end of the fiscal year. I do not say this is general, I do not say it was done in large amounts because I do not know of places where it was done in large amounts, but I know where it was done in substantial amounts and where it was done in several departments.

The CHAIRMAN: Mr. Cameron has not finished.

Mr. CAMERON (*High Park*): You should not make general statements of the nature that Mr. Tardif has made unless you are prepared to go in and give evidence that you can verify. The press are here and if a statement like that goes across the country it does not get the denial that the original presentation called for, and I just do not like that being done unless somebody has concrete and definite evidence to present of some wrongdoing or some accelerating of payments by a department.

Mr. TARDIF: Mr. Chairman, I did not say that this was a wrongdoing, I said it was a practice in some cases. I do not say that they took the goods home, nor that they did not get the goods that they paid for.

The CHAIRMAN: Well, I think that we have handled that. Perhaps Mr. Cameron would like the Auditor General or his assistant to give their viewpoints on this matter. If they wish they are at liberty to make an observation. If not, I will call on Mr. Forbes.

Mr. FORBES: I have a supplementary question for Mr. Davidson based on his 22 years' experience. Has this incident of taking money from the contingency fund to pay salaries that we are now inquiring into established a precedent?

Mr. DAVIDSON: The answer to your question is no, but my answer would be incomplete if I left it at that. The contingency vote has been used repeatedly to meet additional salary requirements. I think however that it is correct to say

that there has never been a situation before which required the contingencies vote to be used to pay salaries for the mid-month point of the month in question, that is, the month after the month for which interim supply has been granted. This is a situation which, to the best of my knowledge, has not arisen before because the situation requiring this decision to be made has not arisen before.

Mr. FORBES: Then was there authority to do this?

Mr. DAVIDSON: Yes, sir.

Mr. FORBES: Under what act?

Mr. DAVIDSON: Under the Appropriation Act and interim supply legislation. In saying this I am relying on the legal opinion that has been given. There was clear authority and we acted on that clear authority.

The CHAIRMAN: Mr. Baldwin has a question and then Mr. Flemming.

Mr. BALDWIN: Mr. Chairman, I am sure that my colleagues would wish me to say that we appreciate Dr. Davidson's coming here. I know he has been involved in another Committee, and I know it meant a very considerable amount of work on his part to appear here, and we appreciate it. I feel that he is doing a very adequate job. I sympathize with the position he is placed in. He has told us of the difficulties in connection with these votes and the complex problems which face him. Probably if I were sitting in his place I might well do the same. On the other hand, I would like to ask him this question. If he were sitting as we, as members of parliament sit, where our primary responsibility as members—which includes my friends on the government side as well as our side—is to watch with the greatest care and anxiety the appropriation of money, would he not be to some extent concerned about a vote which in effect would supplement the estimates now amounting to \$110 million and which can be used in part, under the working of vote No. 15 in finance, to supplement other votes? Does he not think this has some of the elements of offering a rather large blank cheque?

Mr. DAVIDSON: I would not altogether accept the description of this as a blank cheque, Mr. Baldwin. The terms and conditions under which this money is appropriated are written in the vote wording. They are approved by parliament. Parliament has the responsibility for deciding whether it is prepared to give its authority or whether it is not. Parliament has given its authority, not just this year but last year and the year before. I would like to point out, incidentally, that while there have been changes in the vote wording I do not think that the changes in the vote wording that took place this year, as distinct from last year, alter the situation in any significant way because what was done this year could equally well have been done under the authority of the vote wording last year and the year before.

An hon. MEMBER: How about next year?

Mr. DAVIDSON: Oh, you are trying to make a prophet out of me.

The CHAIRMAN: That was just a hypothetical question.

Mr. DAVIDSON: I cannot even prophesy what is going to happen next week, let alone next year.

Returning to Mr. Baldwin's question, I think the very fact that I have said to you that as long ago as July we indicated to the departments that we thought

they should endeavour to build the factor I referred to into the departmental votes for some part of the additional salary requirement that cannot be predicted at this time, I think this in itself is a clear indication of the fact that I have felt concern about the size of the contingencies vote.

I would like to make one correction, and I hope the Committee will regard this as being a distinction that is a valid distinction. Reference has been made to the erosion of parliamentary control. I think of erosion in terms of a sandbank against which the tide moves in, and the action of the tide erodes the sandbank. In my judgment, if I may say so, with deference, what has happened here is that parliament has itself agreed to give up some measure of control.

An hon. MEMBER: Unwittingly.

Mr. DAVIDSON: Well, Mr. Chairman, this is a matter for argument. I would not presume to say that parliament, in doing what it has done, did so in ignorance of what it was doing. I think it will have to be assumed that the members of parliament knew what they were doing when they agreed to authorize that this money be appropriated in this way. I think I would be reflecting very seriously indeed on all the members of parliament if I were to suggest for a moment that they did not know what they were doing in appropriating the money that they have appropriated in the way they have done.

Mr. BIGG: We have never said that we are prophets, any more than you are, in predicting the future, and we see now that the future is in a very dangerous position if this matter is allowed to grow and occur. No doubt parliament has made this legal, but legality is not necessarily in the best interests of the Canadian people and we are here to make laws and to change them, as well as carry them out. This is the reason why I am on this Committee at the present time, to improve my knowledge and even my ability to predict the future.

Mr. MUIR (*Lisgar*): Mr. Chairman, I would like to ask a question for clarification. This money that has accumulated, say, in the Department of National Defence, is there any date when this is returned to the consolidated revenue fund? Is there any fixed date or does it go on from year to year?

Mr. DAVIDSON: As it is provided in the authority at the present time, Mr. Muir, I think that there is no terminal date required at any point in time.

Mr. MUIR (*Lisgar*): Do you not think it would be better if there was a date at the end of each fiscal year when that money would be returned to the consolidated revenue fund?

Mr. DAVIDSON: I would be inclined, and this is a personal opinion, to make a distinction between revenues that accrue to this vote from the sale of equipment and supplies and revenues which accrue from the sale of real property. It might be more reasonable to insist that that portion of this account which accrues from the revenue of materials and supplies should lapse at the end of the year than to insist that this should apply to revenues accruing from the sale of real property.

Let me tell you why I say that. If the objective is to encourage the department to dispose of real property, then you are not going to provide much incentive to the department to dispose of a large and valuable piece of surplus property by saying, "You can keep this money in your account for three, four, or five months, but you lose it at the end of this period of time if you do not in fact

dispose of the property". I think there is more of a case for giving the department, subject to proper controls, a period of time in which to plan the expenditure of funds accruing from the sale of a piece of property than there is in respect of proceeds from sales of surplus materials.

Mr. TARDIF: Mr. Chairman, this amount of money that is returned to the department from the sale of land, does that apply to the budget that was presented or is that over and above the budget that they have presented?

Mr. DAVIDSON: That is not part of parliamentary appropriation.

An hon. MEMBER: Hear, hear.

Mr. TARDIF: Until they can find something new to spend it on.

Mr. DAVIDSON: If they have a requirement arising in the course of the year.

Mr. MORISON: Do I understand correctly that there is a \$5 million limit?

Mr. DAVIDSON: So far as proceeds from real property, Mr. Morison.

Mr. MORISON: So the months it goes above that, then it should go back into the general fund again?

Mr. DAVIDSON: They can only accumulate \$5 million worth from real estate. There is no such limit on the revenues accruing from materials and supplies disposals.

Mr. TARDIF: I did not think the words "disposal" and "\$5 million" went together!

The CHAIRMAN: Before we proceed to Mr. Flemming's question, you were speaking of dates and I believe Mr. Baldwin mentioned certain dates. Dr. Davidson, would you like to make an observation about having dates on interim supply? I notice on page 11 the Auditor General suggests that we might spell out the periods the interim supply is intended to cover. While we are speaking of dates I thought I would interject that.

Mr. DAVIDSON: Well, I do not know what observation you expect me to make, Mr. Chairman. I merely point out that the wording of the interim supply bills which are presented to parliament, and which, I think, are the same as they traditionally have been over the years, do not contain any references to date limits for interim supply. They authorize a fraction of the total supply to be granted which is contained in the main supplementary estimates. The effect of putting a date limit in the supply bill would be, I assume, that any funds that were unspent at the expiry of that date limit would lapse. I can only say that if the members of the Committee are looking for a way in which to completely paralyse the processes of government in this country, this is the way to do it.

Mr. FLEMMING: Mr. Chairman, I was under the impression that the reason for this special meeting on Wednesday afternoon was to find out the mechanics by which these funds were provided for this particular salary requirement as of mid-November. I think we are wandering a bit from that particular objective. However, I am quite prepared to acknowledge that we have been discussing some very important items, so I am not registering any great objection.

At the top of page 15 the sum of \$10.5 million is shown as being available for subsequent transfers. Out of this amount \$2,159,000 was transferred to the nine departments. I assume that this was to make up the deficiency in those nine

departments to provide for salary payments, and that was all that was required at that time. My question is, when you have this vote No. 15, under what department is it made? You do have a vote there, do you not, so under what department is it made? I assume that departments that had voted their funds for their salaries under the situation existing in mid-November were all right because they had voted their funds, is that right? Certain departments had their funds voted by parliament, so there was no problem there, is that correct?

Mr. DAVIDSON: Correct.

Mr. FLEMMING: There were some departments that had not been this fortunate, they did not have their money voted and as a consequence their funds had to be supplemented from somewhere, is that right?

Mr. DAVIDSON: Yes.

Mr. FLEMMING: Do I understand that it was the sum of \$2,159,000 that was needed at that time for that special emergency?

Mr. DAVIDSON: For specific votes in certain departments that had not received full supply.

Mr. FLEMMING: We were led to believe that unless the vote was made by a certain date the people would be without their pay cheques. Now, if we were wrong in our belief, then I think this is something you might take notice of—perhaps not here especially—but we were led to believe that the people would be without their pay cheques and this to me is a very serious thing in the life of any individual. Then all of a sudden we find that the money is there, and there is a way to provide the funds for the payroll at that particular time in those departments. In that connection, these funds which are set up under this vote 15 and why could they not have been available in previous years—you spoke of having authority for the last two or three years—and I wonder why they could not have been used in other years? This is the first time it has ever come to my attention, and I think to the attention of the Committee, and I am just wondering what has taken place recently that suddenly we have plenty of money to provide for those emergency situations?

Dr. DAVIDSON: Mr. Flemming, this is not the first time this crisis has come close. In the two years that I have been with the Treasury Board there have repeatedly been situations where for five, six, seven, or eight days after the end of the month, parliament is debating whether or not to grant interim supply and we are sitting on the edge of the precipice wondering whether we are going to get supply quickly enough to pay the troops overseas, the casuals up in the Yukon Territory and other people who earn their daily bread by working for the federal government. We have come close before, but we came to a situation on this occasion where the critical point came closer than it had ever come before. I merely want to say, and I can only speak for myself, that I made no statement to anybody, public or private, that would have led you or the members of parliament to conclude that unless parliament voted these funds the civil servants would go without their salaries. I did not know, and it was not until the situation reached what I regarded as a critical point, and I began to think that this time parliament was playing for keeps and I further realized that the coincidence of a long week end with Armistice day coming in tightened the noose even further,

that I decided it would be necessary to examine the situation in detail to see just what was required and what was possible. This is what we found.

We found, first of all—and this is without precedent—that there were 10 departments that had, by parliamentary action in June of this year, received full supply. There was certainly no excuse or justification from any point of view for withholding the salary payments of the civil servants in those departments where full supply had been granted.

We then turned to the departments which had received only interim supply and, as Mr. Henderson's statement indicates, information was obtained through the Comptroller of the Treasury's office as to the situation with respect to each individual vote in each of those departments. There were certain of those votes—a substantial number of them, in fact—which, from the interim supply already granted, were shown to have enough funds left over or still available in those votes authorized by parliament to pay their full mid-monthly payroll. There seemed to be no justification, therefore, in respect of those votes, for withholding the mid-month salary of the civil servants whose salaries derive from those votes because the money was already there.

We then came down to the relatively small number, I think it was 15 votes, where there was some money still available in those votes but there was not sufficient money to meet in full the mid-month payroll. We had to consider how we could meet that situation, and we had two alternatives. We had the alternative of not meeting it and allowing the civil servants whose mid-month salaries depended on those votes to wait for a further period and to miss out on their regular mid-month pay check; or we could examine the propriety and the legality of resorting to the finance contingencies vote and transferring funds from the finance contingencies vote to meet the salary deficits of these 15 votes.

We examined this alternative and we obtained the advice of the Department of Justice. Personally I had no doubt that the vote wording did give authority for this purpose. My view of this was confirmed by the Department of Justice, and on the basis of that determination authority was sought and obtained from the Treasury Board to transfer from the Finance vote 15, Contingencies, to these 15 votes the amounts of money that would be required to meet the mid-month payrolls.

Mr. FLEMMING: Mr. Chairman, this, I am sure, is the information that we are after, and I do not think any member of this Committee—although I am only speaking for myself—will express any objection to your paying the mid-month salaries. We are anxious to know how you were able to do it; what the mechanics were, what your difficulties were and how you did it. I believe that when an emergency of this nature arises it is a most natural thing that the people who have the responsibility for payrolls should look for a way to solve the problem. I am pleased to have the information on how it was done and I think, Mr. Chairman, that is really one of the reasons for this special meeting this afternoon.

The CHAIRMAN: I would like to ask one question further to this very excellent explanation that Dr. Davidson has given. Suppose the contingency vote had only had \$1 million in it, and in business you run into this quite often, the bank account does not have enough in that contingency account, what would have happened in that case?

Mr. DAVIDSON: We could not have met the mid-month payroll for all of these votes that were deficient. We would then have had to make "Hobson's choice" as to whether we would use that \$1 million to pay some of them, and if so, whom. I can only say in those circumstances we would have paid the Treasury Board staff first!

Some hon. MEMBERS: Hear, hear.

Mr. FORBES: Mr. Davidson, could you have gone beyond this and borrowed the money?

Mr. DAVIDSON: No, Mr. Forbes.

Mr. BIGG: I would like to thank Dr. Davidson for his presentation, and I also want to say something about the word "erosion". I hope that I did not give the impression that I thought that any department heads or anybody else was eroding the powers of parliament. I think we allowed the winds of chance to work against the cliff, and it is my intention to try to shore up that cliff so that it will not occur again.

The CHAIRMAN: Mr. Flemming and then Mr. Cowan.

Mr. FLEMMING: Dr. Davidson would the availability of a salary fund in each department of this nature that might be sub-divided in a way that you, who would have knowledge of it might consider appropriate to sub-divide it, not provide a fund by which this matter of the emergency, caused by the lack of interim supply being voted for such purposes would be removed?

Mr. DAVIDSON: I am not sure that I understand.

Mr. FLEMMING: If you had salary funds available under a general heading in each department on some sort of a pro-rated basis depending, I presume, on the total amount of their payroll for the year, would that not do away with the need for interim supply so far as salaries are concerned?

Mr. DAVIDSON: You are increasing your risks of bad estimating, in my judgment, if you break up the general salaries vote completely and try to build into a wide variety of departmental votes factors which—with the best judgment in the world on the part of all those concerned—cannot accurately predict all of the situations that may arise with respect to that salaries vote in the year ahead.

Mr. FLEMMING: Surely you must have a salary vote in each department?

Mr. DAVIDSON: Yes. Let me just put an illustration to you, Mr. Flemming. We have salary votes in all departments. In one case you might have a completely static establishment in a particular branch of a department. You know what your manpower requirement is; it is a steady, regular, constant payroll. Another department may be in a period of expansion with a new program, and it is going to have to recruit several hundred new employees to discharge a new responsibility that parliament has imposed upon them in the next fiscal year. Nobody knows at this time how fast they are going to be able to recruit them, how many vacancies they will have at different months of the year, and you have to do a costing estimate, a calculation as to what their probable actual payroll requirements will be.

Now, we say to them, "Add this 3 per cent factor to each of these two votes". I must confess that I have some reservations about how practical a proposition

this will be, because in one case a 3 per cent factor on a steady payroll may be meaningful; in another case 3 per cent, on the best guess that can be made now as to what the payroll costs of this increasing work force will be, may be much less meaningful.

There is one other factor that I think we have to keep in mind, and that is that what we are doing here, among other things, is making predictions as to what increases in wages the government of Canada will be prepared to pay to its employees 18 months ahead of time. As we are coming into an era of collective bargaining, I am not sure how wise it is, from the point of view of the government as an employer, to telegraph 18 months ahead of time what our salary intentions are when the bargaining situation may change in the course of the year ahead. This is a factor that I think must enter into the picture. I offer this comment, and I expect some criticism of this, but frankly this is a factor which has prompted us to divide, as between the main estimates and the supplementary estimates, our requests for funds for the general salaries vote. You may say why should we ask for \$15 million in the main estimates and then come along in May and ask for \$45 million, and then ask for \$50 million in October. I think part of the justification for that is that we wish to reserve any indication of our intentions as to what salary increases we might be justified in providing through the year until we get a little bit closer to the actual point of having to make a decision.

Mr. FORBES: Mr. Chairman, if I understand our system correctly, it is part of the process of parliament to vote interim supply. If we adopt something like Mr. Flemming suggested, providing funds that could be paid almost anytime, then the Opposition in the House of Commons lose their control over the government. The only opportunity we have to control the government at all is whether we are going to vote them supply or not. Is that not correct?

Mr. DAVIDSON: Parliament controls the executive by control of supply, there is no question about that.

The CHAIRMAN: Mr. Forbes' question is if there is \$110 million in the contingency fund, the power of interim supply is lost.

Mr. FORBES: That is what I mean, yes.

Mr. DAVIDSON: Well, it depends on how much of the contingencies vote you vote in interim supply. Just because we include in the estimates a contingencies vote does not mean that that vote is available from the first day of April of the fiscal year. In voting interim supply Parliament votes a fraction of that contingencies vote, it does not vote it all.

Mr. TUCKER: Mr. Forbes should not forget that it is not voted by the government all the time either.

The CHAIRMAN: There are people in this room who have been on both sides, so it is of interest to everybody, I am sure.

Mr. BIGG: This question of using eleven-twelfths or ten-twelfths, and so on, in your opinion is that perfectly legal? How is it we can do that when apparently we only voted eight-twelfths up to date, and yet we use up to eleven-twelfths?

Mr. DAVIDSON: Each interim supply bill, Mr. Chairman, contains Schedules which set out those votes of the various departments where additional fractions of supply are requested.

Mr. BIGG: Beyond the normal calendar estimates?

Mr. DAVIDSON: That is right, beyond the normal mathematical fractions. At the time the interim supply bill is presented to the house, the minister is supplied with explanations as to why additional fractions for certain votes are considered necessary. If I might just use a typical example, the Geological Survey of Canada has to carry out most of its work in the summer months and therefore the Geological Survey of Canada vote always asks for extra fractions in the early interim supply appropriations.

The CHAIRMAN: Mr. Cowan, would you take the chair at the table if you wish to ask any questions. Yes, Mr. Baldwin?

Mr. BALDWIN: On page 14 of the Auditor General's statement it would now appear that of this \$60 million there was, pursuant to the appropriation bill approved on November 17, \$55 million which had been approved. Could you tell us, Dr. Davidson, how much of that is now available to be disbursed?

Mr. DAVIDSON: I have the figure here and I can tell the Committee, Mr. Chairman, if you and the Committee think that I should give this information about the current financial position of the contingencies vote. I will give it if it is the view of the Committee that I should.

The CHAIRMAN: What are your wishes, gentlemen?

Mr. FORBES: Has Dr. Davidson any reservations about this?

Mr. DAVIDSON: I have never been asked this question before, so I do not know what the answer should be.

Mr. BALDWIN: Rather than put you in a difficult position, would you be prepared to say that there is a very substantial amount of it available to be disbursed pursuant to the vote?

Mr. DAVIDSON: I would have to ask you to define your terms.

Mr. BALDWIN: Well, I will leave it at that. I will not pursue it if you think there is any doubt.

Mr. BIGG: Is this in any way privileged information?

The CHAIRMAN: In fairness to Dr. Davidson I shall rule the question out of order.

Mr. COWAN: About a half hour ago Dr. Davidson prefaced one of his remarks by saying, "I wish to correct", and I wondered whether he meant to correct himself, members of the Committee or somebody else. Then he began to give us a description of what the word "erosion" means. Since the word erosion first appears at line three of the Auditor General's statement, I would like to ask Dr. Davidson if he is intending to correct the Auditor General?

The CHAIRMAN: The answer is no.

Mr. COWAN: Well, that was the interpretation I took out of it, that is all. Then he answered some questions about where the money came from to pay the

mid-November salaries. We all know there was no problem for the departments whose estimates had been passed fully, but those departments that were working under interim supply were examined by him and were found to have monies authorized by parliament. I do not disagree it was authorized by parliament, but was it authorized to be used for salary purposes?

Mr. DAVIDSON: They were authorized in the interim supply appropriation bill, Mr. Cowan. The interpretation of the legal authorities is that it was permissible to use the interim supply appropriation for salary purposes as well as for the other purposes of that vote.

Mr. COWAN: Do you mean that once interim supply is granted a department can spend it on whatever it likes in that department?

Mr. DAVIDSON: Not in that department, no; within that vote, yes, if it is in accordance with the requirements stated in the main estimates as presented to parliament.

Mr. COWAN: Then once the amount has been voted by interim supply to his department, he can use it as he likes in that department.

Mr. DAVIDSON: No, sir. There are several votes in a department, and neither the minister nor anyone else has authority to transfer funds from one vote to another vote. Therefore I make a distinction between using it in a department and using it in the vote to which that interim supply has been allocated.

Mr. COWAN: I hope it is clear to you, sir.

The CHAIRMAN: Are there any further questions?

Mr. BIGG: Under the definition of vote 15 this is a kind of slush fund, where if there is anything left over in one department it goes into that general department, and then apparently it can be taken out of there and used for payment in any department required by the executive, is that correct?

Mr. DAVIDSON: Money does not come into that vote, Mr. Bigg, from any other department. It is true that there is a vote wording attached to this particular vote which says that funds which are advanced from vote 15, and which are returned to vote 15 in the course of a year, can be re-used. In practice that has been applied only to that portion of this vote which relates to non-salary items.

Mr. TARDIF: Mr. Chairman, if that is the case, that expression "slush fund" should not be an accepted term. Mr. Bigg called it a "slush fund", and that term should not be accepted if it is there.

The CHAIRMAN: Order, please.

Mr. BIGG: I used that term in ignorance, I admit that. I do not know the legal description of this fund. But it seems to me that this method of getting money back into the hands of the executive is circumventing what we considered our "stop spending" method. We came to a point where we thought we could use interim supply, or supplementary estimates, to stop the government or to paralyse it. We thought we could. We suddenly found out that we cannot, because they found money which, because we are not experienced in this field, we did not know was there. I am trying to stop that type of procedure. I may not get my

way, but if I can get enough information on how to do it I am going to try to do it.

The CHAIRMAN: Well, thank you, Mr Bigg.

Mr. BIGG: I apologize for using the term "slush fund". I meant a central pool by which we can negate the will of parliament.

The CHAIRMAN: You stand corrected, Mr. Bigg.

An hon. MEMBER: I think the name should be change from "contingency" to "unforeseen".

The CHAIRMAN: I think before we adjourn we should ask the Auditor General if he has any comments, and then if there are no further questions we will adjourn.

Mr. FLEMMING: I will take just a fraction of a minute. It seems to me that the comments of the Auditor General, as embodied in this paper and which are included by motion in our Committee report, are deserving of more consideration by the Committee. I have some views about budgeting which I would like to present, and all I am asking, Mr Chairman, is that you set a date and notify everyone that we will be discussing this at some time. I do not even suggest what meeting, but I have some views that I would like to present. I would like to have a little more discussion on the question of erosion. I wonder if the Committee would have any objection to having it stand for now and it can be included in later discussions.

The CHAIRMAN: Gentlemen, just a minute, please. Your wishes are noted, Mr. Flemming. Now, Mr. Henderson, do you have an observation to make?

Mr. HENDERSON: I do not have very much to say, Mr. Chairman, but I am glad to hear Mr. Flemming say that he would hope that there might be a later discussion of the principles involved in this matter. I went to some pains in a very short time to endeavour to set them into focus for you, and I am quite frank in saying to you that if I had been in Dr. Davidson's position I would have handled it precisely as he and his associates handled it. I commend his explanations to you as the way to conduct it in the executive.

My job, however, is that of your adviser as parliament's auditor, and it seems to me that I have a responsibility to put things like this into focus in order to assist you in understanding the problem and what is involved. That is what I have sought to do here. The answer to this, as I see it, lies entirely with you and with parliament. If you are satisfied with the present format of the estimates and the procedures that have been followed, then you express your wish, you approve the vote, you go ahead. If you are not, then ask questions and let us have further discussions and express your will in the normal way in the House. Beyond that I cannot go. But it is my job, it seems to me, to try and sort out the facts and put them into focus for you if I am to be worthy of being your adviser and auditor. Thank you, Mr. Chairman.

The CHAIRMAN: Gentlemen, I think you would want me to express to both these gentlemen our appreciation for their coming here and giving us a very, very extensive insight into this difficult problem. Thank you. Meeting adjourned.

APPENDIX "17"

Statement by the Auditor General concerning the Form and Content of the Estimates, with particular reference to the Revised Vote Pattern introduced in 1964-65, Interim Supply and use of the Finance Contingencies Vote (November 23, 1966)

My purpose here is set down in proper sequence various changes which have taken place in the vote pattern over the past three years. I do so because I believe that these changes have contributed to an erosion of Parliament's traditional role in controlling public funds and that it is important members of this Committee and the House understand their significance.

So far as Interim Supply and the use of Finance Contingencies Vote 15 is concerned (in the context of the discussions in the House last week), I shall endeavour to show how these fit into the pattern we find today. Although I refer to facts and figures taken from the Public Accounts and Treasury records, I wish to make it quite clear that I have not carried out an audit of the transactions involved in the mid-November salary payments.

General Background

First I should remind you of discussions we have had in the past concerning the form and content of the Estimates, in particular the study given to this subject three years ago by a subcommittee of the Public Accounts Committee. You will remember this subcommittee was formed to study a proposal put forward by the staff of the Treasury Board for a consolidation of existing votes. The Royal Commission on Government Organization had pointed out that the Main Estimates 1962-63 included 495 votes, or over three times the number employed in the United Kingdom Parliament, and added that "rationalization and a reduction of the number of votes would make the definition, planning and control of activities more effective, and would give management greater flexibility in achieving its objectives."

As you know, this was done and the results of the reduction brought about are evidenced today by the fact that the Main Estimates 1966-67 include only 243 votes. This 50 per cent reduction has taken place despite the fact that the Main Estimates 1966-67 call for \$4,908 million, or 23 per cent more than was the case four years previously.

It may be helpful if I just review in detail what took place in November 1963 and briefly refer to some changes since that time.

Consolidation of Votes or New Vote Pattern 1964-65

When the Secretary of the Treasury Board appeared before the Public Accounts Committee at that time he outlined the Estimates processes and spoke about one of the principal recommendations of the Royal Commission on Government Organization, namely that there should be a far greater decentralization of financial control by the central agencies to the departments. He explained the thinking of the Board in terms of program budgeting, study of which was then getting under way. Basic to all of this was a reduction in the number of votes because, as I have quoted from the Royal Commission report, this would "give management greater flexibility in achieving its objectives."

The Committee was asked to approve the reduction, or consolidation of votes as it was called, so that the new reduced vote pattern could be introduced into the Estimates 1964-65.

The straight proposition of reducing the number of votes was and is very important because it touches directly on Parliament's control of public funds. It may render life much easier administratively for the management, or the executive in this case, but it also can reduce parliamentary control because fewer votes can result in fewer opportunities being available to Parliament to discuss proposed expenditures, e.g., supplementary estimates.

I have stated to the House and told you in Committee over the past several years about improvements which in my opinion are long overdue in the manner in which Estimates are presented to Parliament. I have always believed public spending at the level it has reached today makes it essential that the Estimates be presented to Parliament in the clearest and simplest manner which can be devised. I think the present wording of the Main Estimates and Supplementary Estimates tends to be far too technical and with not enough understandable supporting details in many cases. If Estimates are not so presented to Parliament, then how can Members of Parliament give the proposed spending the scrutiny it deserves and be able to approve it on behalf of the Canadian taxpayer?

At that time the Committee had endorsed most of my suggestions and had made them the subject of recommendation to the House. However, no Executive action had been taken on most, and as you know in two cases none has been taken yet, three years later. Consequently, reducing the number of votes while still leaving the existing method of presentation unimproved seemed to me "like putting the cart before the horse." I said I thought the effect might well be to lessen parliamentary control and my officers and I cited numerous examples of this from the proposed new consolidation planned by the Treasury Board for the 1964-65 Estimates. In our Committee meetings we suggested a number of improvements in the proposed new consolidation all of which the representatives of the Treasury Board undertook to carry out. In due course the subcommittee reported and it was in its Third Report 1963, presented to the House on December 19, 1963, that this Committee recommended "adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee."

I have since considered it my duty to follow the implementation of this Committee recommendation closely. The first results are to be found in paragraph 51 (page 22) of my 1965 Report to the House which, as you know, is still awaiting discussion of this Committee's agenda.

From this you will see how the vote pattern actually adopted for the 1964-65 Estimates differed in a number of instances from the pattern which had been seen and approved by the Committee. You will see here examples of transfers made of funds between services which would not have been possible under the previous vote pattern. Last year it seemed to me important that I bring this to the attention of the House and I may say that similar differences have been noted again this year and will be the subject of further comment in my forthcoming Report to the House for 1965-66.

Examples from Defence Votes

I will turn first to the votes of the Department of National Defence and the Department of Defence Production, two of our large spending departments.

As you know, appropriations for the Department of National Defence now consist of only ten votes. One of them by itself, Vote 15, "Operation and Maintenance and Construction or Acquisition of Buildings, Works, Land and Major Equipment and Development" in the Main Estimates 1966-67 amounts to \$1,420 million—that is, 95 per cent of all the National Defence spending or 18 per cent of the Government's total Main Estimates is now consolidated in this single vote. I may say this consolidation exceeds Treasury Board's undertaking to this Committee three years ago when the Committee approved the Revised Vote Pattern.

Section 29 of the Financial Administration Act requires each departmental head to "prepare and submit to the Treasury Board through the Comptroller a division of such appropriation or item into allotments in the form detailed in the Estimates submitted to Parliament for such appropriation or item, or in such other form as the Board may prescribe, and when approved by the Board the allotments shall not be varied or amended without the approval of the Board, and the expenditures charged to the appropriation shall be limited to the amounts of such allotments."

It is under this provision of the law that the Treasury Board controls the individual segments or allotments making up the appropriation approved by Parliament. The allotments are shown in the details of services following the Estimates in the Blue Book and, although the allotments can be varied or amended within the amount of the appropriation with the approval of the Treasury Board, money cannot be expended in excess of either the total amount of each allotment or, of course, of the appropriation.

On October 14th last I pointed out to Dr. Davidson how transfers between the allotments into which the appropriations of the Department of National Defence are divided had been approved by the Deputy Minister of the Department, rather than by the Treasury Board. I asked if I could be advised of the authority relied upon by the Treasury Board for permitting this Department to vary its allotments without the Board approval required by section 29 of the Financial Administration Act. I have not yet had a reply to this letter.

Whenever an appropriation is provided for purposes to be determined by the Executive, parliamentary control is weakened. Similarly when the Executive is permitted to accumulate revenues to be used at its discretion in future years, the control normally exercised by Parliament is reduced.

An example of this may be found in paragraph 60 of my 1965 Report where I point out that the Department of Defence Production was holding \$1.8 million dollars in its Revolving Fund against the day that it may suffer losses under sales contracts or with respect to strategic materials. We discussed this in the Committee on November 1st. The Department thinks this is in order but I do not agree because I do not believe that Parliament intended that the Executive should be relieved of its dependence on Parliament for funds to cover losses it might suffer.

Another example which came into being in 1965-66 is Vote 48 of the Department of National Defence. This is a dollar vote by which Parliament has authorized the Executive to accumulate in an "Open Account" all the proceeds

from the sale of surplus materials, supplies and equipment and up to \$5 million from the proceeds of the sale of surplus buildings, works and land and to spend these funds with the approval of Treasury Board in any year. At March 31, 1966 there had been no expenditures from this account and the balance stood at \$9,073,000. I believe the balance is close to \$19 million today. This account may be built up in this way year after year while appropriations are available and thus serve as a cushion to soften the effect of any reduction Parliament may wish to bring about in National Defence spending in the future.

I might also refer to the National Defence Equipment Account which was set up in 1950 and closed out in 1958-59. This account was referred to by the then Minister of Finance in his 1958 Budget Speech as follows:

"...we propose to eliminate the balance remaining in the national defence equipment account. This account was set up in 1950 when NATO was being organized, and to it was credited the value of all equipment given by Canada to our NATO allies. At its peak there was about \$310 million in this account. The former government drew on this account from time to time by charging to it, and not to budgetary expenditures, the cost of replacing such equipment. On the basis of past practice there would be about \$165 million in this account at the end of this year. We believe that in the interests of good accounting practice and the maintenance of proper parliamentary control of expenditures this account should be liquidated during the current year."

Reference to this comment will be found on page 5 of my predecessor's 1959 Report to the House.

The Department of National Defence has yet another account which the Executive may use at will to supplement parliamentary appropriations for the purchase of materiel. This is the Replacement of Materiel Account which is authorized by section 11 of the National Defence Act and which contained a balance of \$634,000 at March 31, 1966. The account is credited with the proceeds from the sale of materiel, which is not surplus but which is not immediately required, to such countries or international welfare organizations on such terms as the Governor in Council may determine. The largest year-end balance in the account was \$18 million at March 31, 1958.

Finance Contingencies Vote

The Finance Contingencies Vote as it appears in 1966-67 itself represents a consolidation of votes. Up to and including 1963-64, two of the Finance votes had been Vote 70 for the supplementing of salaries, wages and other payroll charges and Vote 50 for miscellaneous minor and unforeseen expenses. These were combined by the Treasury Board into Vote 15 in 1964-65 under the Revised Vote Pattern I have described, and for that year and 1965-66 the vote was worded: "Contingencies—Subject to the approval of the Treasury Board, (a) to supplement the payroll provisions of other votes; (b) for miscellaneous minor or unforeseen expenses; etc." Now in the Estimates and the Supplementaries tabled in the House for 1966-67 the wording is simpler: "Contingencies—To supplement other votes and to provide for miscellaneous minor and unforeseen expenses...and authority to re-use any sums repaid to this appropriation from other appropriations."

Recently I noted how the Secretary of the Board had advised deputy heads ten years ago (Treasury Board letter of November 26, 1956) that there would be

no objection to the making of transfers from the salary allotment to another allotment within a vote even though that salary allotment had been supplemented by a transfer from the general salaries vote provided that that transfer had taken place to meet requirements arising out of a general salary revision.

You will, I am sure, agree with me that when such a transfer is made the final result is that the general salaries vote has in effect been used to supplement allotments other than the salaries allotments in other votes. In other words, if the Treasury Board under section 29 of the Financial Administration Act had already approved of a transfer from the existing salaries allotment to another allotment to cover other types of expenses, then as and when it became necessary to replenish the salaries allotment the effect was simply to be using the general salaries vote to supplement other types of spending.

This, of course, was not the purpose for which Parliament provided this general salaries vote and therefore it constituted the application of an appropriation to a purpose not authorized by Parliament. In a letter to the Secretary of the Treasury Board in July 1965 we asked if we might have the benefit of his comments on this practice.

I believe it would be helpful to your understanding if I quoted the pertinent paragraphs of the Treasury Board reply received on September 2, 1965:

"As background to an understanding of the Board's decision in this respect, I should note that departments now preparing to adopt activity (performance) budgeting and accounting were making representations for further relaxation of the Board's current salary-transfer rules at about the same time as you raised your query. It will obviously not be possible, when the improved financial management practices recommended by the Glasco Commission are in place, for the Treasury Board to continue to impose even its present restrictions in this regard without undermining the principle of increased departmental responsibility inherent in those recommendations. The Board, therefore, look forward to further relaxation rather than a tightening of present salary-transfer rules.

"From the legal point of view, Treasury Board does not support the interpretation you appear to place on Finance Vote 15. It considers that the ability conferred by section 29 of the Financial Administration Act to transfer between control allotments is not affected by transfers into a vote from the Contingency Vote and that the salary-transfer rules which now exist were invoked by executive order alone; having been invoked by the Board, the Board considers it can also revoke them.

"Incidentally, the Board has ordered that the Contingency Vote title be redrafted to more simply and clearly indicate its purposes. The present wording is, of course, the result of the deliberate putting together, without major revision, of the wordings of several Votes in the year in which a major consolidation of Votes was undertaken throughout the Estimates (1964-65). Now that Parliament is familiar with the consolidated form of the Estimates, no confusion will result from redrafting of the present somewhat clumsy title of the Contingency Vote."

It seems to me that the Treasury Board was wrong in claiming to have authority to supplement salary allotments from the salary vote even when the reason the allotments require supplementing is that they have been used to supplement other allotments in an appropriation. There is no question, of course,

of the authority of the Treasury Board under section 29 of the Financial Administration Act, but neither is there any question that when Parliament votes money for salaries it is to be used for salaries and salaries only and may not be used for anything else either directly or indirectly. However, this problem will no longer exist unless Parliament refuses to accept the revised wording of Finance Vote 15 which includes authority "to supplement other votes..."

Interim Supply

I now come to the methods involved in calculating Interim Supply.

Before embarking on this may I be allowed to say that I think it is highly unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and measures like interim supply would not be required so extensively. It seems to me this would not only strengthen parliamentary control of public funds all round but give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities. It would also ensure a more adequate consideration by the House of spending proposals, all too many of which are now passed under pressure of other business or of an impending recess or adjournment.

Interim Supply is a request by the Executive to Parliament for the release of funds pending approval of the departmental estimates. It is expected that the request will be based on the principle of asking for one-twelfth of the estimated cost of the proposed expenditures (as detailed in the Estimates already tabled) for each of the months lying ahead until (a) it is expected the Estimates will be fully approved by the House, or (b) interim supply has again to be sought from the House.

If the one-twelfth basis is adhered to then it follows that the funds released by an Appropriation Act to each departmental appropriation are sufficient for only the immediate months or period ahead. There would seem to be little leeway from month to month and certainly not to cover any major expenditures beyond the end of the immediate months or period planned. If there is leeway, then it can only be caused by Interim Supply having been sought and obtained on a basis more generous than was required.

If Parliament wishes to ensure that this does not take place, then perhaps the Supply appropriations should spell out the period the Interim Supply is intended to cover, as, for example, until November 30th in the case of Appropriation Act No. 8 passed on November 17th last.

Funds Available to meet Mid-November Paylists

It has not been possible in the time available to check any of the balances in the individual departmental appropriations or vote records on the eve of the issuance of the mid-November pay cheques in order to determine the extent to which the balances were approved by Interim Supply authorization.

It should be noted here that as Interim Supply is granted to a vote by an Appropriation Act, the vote records kept by the Comptroller of the Treasury show this Interim Supply Authorization being applied simply to the appropriation, not pro rata to each allotment. Consequently, the transfers authorized under section 29 of the Financial Administration Act are not made during a period of Interim Supply.

The list of departmental votes for which Interim Supply only had been granted, tabled by the President of the Treasury Board in the House on No-

vember 17th, shows their individual estimated mid-November salary requirements and states that the votes contained sufficient funds with which these particular requirements could be met. In order to satisfy ourselves on this point, we asked for a listing of the balances (approved by Interim Supply) in the individual departmental appropriations or vote records at close of business November 9th but were informed this information had not been retained at headquarters. Apparently the Chief Treasury Officers of the Comptroller of the Treasury telephoned these balances into headquarters at Ottawa where they were checked to verify that the salary requirements could be met. As you know from what transpired, they fell short in the case of nine departments by \$2,159,000.

The Interim Supply sought by Bill C-245 and now covered by Appropriation Act No. 8 passed on November 17th was to provide Interim Supply up to November 30th. Viewed from the one-twelfth per month basis already discussed, this should bring Interim Supply approved to November 30th up to eight-twelfths, leaving the remaining four-twelfths for other interim supply requests or total approval of the Estimates during December 1966 and January, February and March 1967.

Appropriation Act No. 6, 1966 completed full Supply for ten departments whose Main Estimates 1966-67 were approved by the House in the summer of 1966. Appropriation Acts Nos. 3, 5, 7 and 8, 1966, have in fact granted Interim Supply to a number of individual appropriations of the following departments at rates of between nine-twelfths and eleven-twelfths of their Main and Supplementary Estimates notwithstanding the fact that four months still remain to the end of the fiscal year:

	No. of Votes
Agriculture	3
Atomic Energy	1
Defence Production	1
Dominion Bureau of Statistics	1
External Affairs	3
Finance	5
Fisheries	3
Justice	1
Mines and Technical Surveys	13
National Defence	1
National Film Board	1
National Health and Welfare	2
National Research Council	1
Northern Affairs and National Resources	3
Public Works	1
Secretary of State	1
Solicitor General	1
Transport	9
	—
	51
	=

The granting of Interim Supply in excess of the eight-twelfths in areas like these obviously can result in departments having approved funds available in excess of their immediate needs. A good example of this is to be found in Finance Contingencies Vote 15 whose record over the past three years shows that Interim Supply approval has always exceeded the months involved:

		Interim Supply	
		Approved November 5, 1964 up to November 30, 1964— (normal 8/12)	
1964-65			
Main Estimates	\$ 6,000,000	11/12	\$ 5,500,000
Supplementary Estimates (A) ...	35,000,000	9/12	26,250,000
Supplementary Estimates (B) ...	5,000,000	9/12	3,750,000
	<u>\$46,000,000</u>		<u>\$35,500,000</u>
	=====		=====
		Approved June 30, 1965 up to October 31, 1965— (normal 7/12)	
1965-66			
Main Estimates	\$ 6,000,000	8/12	\$ 4,000,000
Supplementary Estimates (B) ...	35,000,000	10/12	29,166,666
Supplementary Estimates (D) ...	25,000,000	—	
Supplementary Estimates (E) ...	5,000,000	—	
	<u>\$71,000,000</u>		<u>\$33,166,666</u>
	=====		=====

NOTE: Parliament adjourned June 30, 1965 and was dissolved September 8, 1965.

		Interim Supply	
		Approved July 11, 1966 up to October 31, 1966— (normal 7/12)	
1966-67			
Main Estimates	\$15,000,000	11/12	\$13,750,000
Supplementary Estimates (A) ...	45,000,000	9/12	33,750,000
	<u>\$60,000,000</u>		<u>\$47,500,000</u>
	=====		=====
		Approved November 17, 1966 up to November 30, 1966— (normal 8/12)	
1966-67			
Main Estimates	\$15,000,000	11/12	\$13,750,000
Supplementary Estimates (A) ...	45,000,000	11/12	41,250,000
	<u>\$60,000,000</u>		<u>\$55,000,000</u>
	=====		=====

As members of the Committee know, Vote 15 in the Main Estimates appeared at \$15 million. In Supplementary Estimates (A) tabled on June 23, 1966 an additional \$45 million was sought and in Supplementary Estimates (C) tabled on November 17th a further sum of \$50 million is requested, bringing the total required for the Finance Contingencies Vote to date to \$110 million.

Finance Contingencies Vote—Position at November 9, 1966

It will be seen from the foregoing that the sum of \$47.5 million stood approved under Interim Supply for Finance Vote 15 up to October 31, 1966.

The records of the Treasury Board show that transfers to supplement votes of Finance and the other departments to cover salaries had totalled \$32.1 million in the current fiscal year up to November 3, 1966 and that \$4.9 million had been transferred for purposes of miscellaneous minor and unforeseen expenditure items up to that date. This left the sum of \$10.5 million available for subsequent transfers. It was out of this balance that the sum of \$2,159,000 was transferred to the nine departments.

Recommendation and Conclusion

The principal reason why these large sums have been placed in the Finance Contingencies Vote has been to provide for the large-scale salary increases made almost uniformly during the last year or two throughout all departments and agencies of the Government. Many of these are retroactive for a considerable period and the amounts involved are substantial. It is because these changes have been worked out and established by the central agency of Treasury Board that it has not been possible for the individual departments to make any provision in their individual Estimates for the amounts likely to be involved in each of their own cases. It has therefore been much easier to place the total amount involved, so to speak, in the one vote and let Treasury Board divide it up as called for by each department.

This approach may make for smoother administration over-all but runs counter to the very proposals of decentralized authority which the Glassco Commission preached and which Treasury Board now proposes to adopt. I think in circumstances such as these it would be more meaningful and certainly more helpful to the House in its control of the money supply were the amount of the individual departmental requirements for the additional salary money to be the subject of Supplementary Estimates put in by each of the departments concerned—in fact it seems to me that this is precisely what the supplementary estimate procedure is for, namely to bring to the attention of the House unforeseen expenses encountered by a department, e.g., retroactive salary revisions. If a change like this were to be made, then the Finance Contingencies Vote could be returned to its original concept, namely that of a small fund to be retained for unexpected and unforeseen items.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 29

THURSDAY, NOVEMBER 24, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Report of the Auditor General to the House of Commons (1964)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. C. Gilhooly of the Auditor General's Office; *From the Unemployment Insurance Commission:* Colonel Laval Fortier, Chief Commissioner; and Messrs. Fidler and Cuddy; *From the Department of National Health and Welfare:* Dr. J. W. Willard, Deputy Minister of Welfare; Dr. J. N. Crawford, Deputy Minister of Health; and Dr. G. E. Wride, Director, Health Grants.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Prittie,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, November 24, 1966.

(39)

The Standing Committee on Public Accounts met this day at 9.55 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Forbes, Hales, Leblanc (Laurier), Lefebvre, Prittie, Thomas (*Maisonneuve-Rosemont*), Tucker (10).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Gilhooly and Laroche of the Auditor General's office; *From the Unemployment Insurance Commission:* Colonel Laval Fortier, Chief Commissioner; and Messrs. M. D. Fidler and Cuddy; *From the Department of National Health and Welfare:* Dr. J. W. Willard, Deputy Minister of Welfare; Dr. J. N. Crawford, Deputy Minister of Health; Dr. G. E. Wride, Director, Health Grants; and Departmental officials.

The Chairman introduced Colonel Laval Fortier, Chief Commissioner, Unemployment Insurance Commission and his associates who were examined by the Committee on the following paragraphs in the Auditor General's Report 1965.

Electronic date processing system abandoned	Paragraph 72
Cost of delay in returning rented imprints	142 (7)
Unemployment Insurance Fund and its administration	Appendix 1, item 11

The Chairman then introduced Dr. J. W. Willard, Deputy Minister of Welfare, Department of National Health and Welfare who was examined by the Committee respecting the following item from the Auditor General's Report 1965.

Unemployment Assistance	87
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The Chairman also introduced Dr. J. N. Crawford, Deputy Minister of Health, Department of National Health and Welfare who was examined on the following items from the Auditor General's Report 1965.

Provincial payments to Federal hospitals under the Hospital Insurance and Diagnostic Services Act	Paragraph 88
Hospital construction grants	Appendix 1, item 34

At 11.40 a.m. the examination still continuing, the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 24, 1966

The CHAIRMAN: Gentlemen, I know of some other members coming and I think we will have a quorum. In view of the fact that Colonel Fortier was here last day but owing to shortage of time we were unable to hear him, it is only fair that we proceed and hear from him now. I will ask Mr. Henderson to introduce the subject matter and then Colonel Fortier could proceed.

We were on page 44, paragraph 72, and in the French book it is page 48. The paragraph reads:

72. *Electronic data processing system, abandoned.* In 1964-65 the Unemployment Insurance Commission, with Treasury Board approval, instituted a program whereby unemployment insurance benefits for the Prairie Region would be paid by mail from a centralized claims payment centre located in Winnipeg. The program was to be implemented by using electronic data processing equipment to replace the existing mechanical tabulation equipment in use in the six payment centres in the Region. The Commission's preliminary feasibility study completed in May 1964 indicated a potential saving from this operation of over \$100,000 a year.

This installation, a prototype for similar centres in each of the Commission's regions across Canada, was expected to be capable of processing a potential load of 90,000 active claims in the Prairie Region. The equipment installed was that recommended by the manufacturer of its main component unit who, in addition to guaranteeing that its performance would meet the Commission's requirements, undertook to do the necessary systems and programming work.

The installation was not a success; it was operated at 10 per cent of its rated capacity and the supporting clerical staff requirements exceeded expectations. The computer operation was abandoned and the equipment returned to the supplier at the end of June 1965.

The failure of this equipment was due to faulty planning by the Commission and the manufacturer. In the haste to make it fully operational before the 1964 winter claim load began, the choice of equipment appears to have been on the basis of availability rather than suitability, with the result that the computer unit installed was not suited to the complexity of the operation. Insufficient time for proper programming was also a factor.

The total cost to the Unemployment Insurance Commission of this regional payments centre in terms of equipment, rental, additional salaries, overtime, travel expenses and other identifiable costs is estimated at \$200,000. The manufacturer had guaranteed that the system would pro-

duce initial payments commencing August 17, 1964 and be fully operational by September 1, 1964 and sent several programmers to Winnipeg in an effort to achieve this purpose. No claim has been made by the Commission against the manufacturer for any part of this cost.

Recommendations concerning procurement practices in the leasing of automatic data processing equipment were made by the Royal Commission on Government Organization in Report 4 on "Paperwork and Systems Management".

The case underlines the importance of manufacturers being required to indicate in precise terms the guarantees they offer against failure of their equipment to meet specified performance.

Mr. A. M. HENDERSON (*Auditor General*): This item has to do with an electronic data processing system abandoned in western Canada. I do not think it is necessary for me to recapitulate what the note says other than to say that I do think the example underlines the importance of manufacturers of this type of hardware being required to indicate in rather more precise terms the guarantees that they offer against failure of their equipment to meet specified performance. I think Colonel Fortier will probably have something to say on that point, Mr. Chairman.

Colonel LAVAL FORTIER (*Chief Commissioner, Unemployment Insurance Commission*): I would like to be very brief on that, but I think for a proper understanding of what has been done, I should explain that we brought the computer to Winnipeg in order to replace the record unit machines we had there. We have 29 local offices in the Prairie Provinces and we were paying the unemployment insurance claim through six offices. We had a contract with Remington Rand which was to expire March 31, 1965. We are dealing with 1964-65 right now. We requested a replacement of the equipment that we had. The suppliers made a recommendation that the two tapes drive 1004 model would be able to do the job we expected it to do in Winnipeg.

The CHAIRMAN: Colonel Fortier, who was the supplier?

Mr. FORTIER: Remington Rand. It did permit us to carry on a study of computer application on centralized pay a operations at a very low cost. In fact, the rent for the computers was equal to the one we would have paid for the record unit at Port Arthur which the computer replaced. In other words, we took the equipment out of Port Arthur; we obtained a computer, and we paid as rent for the computer what we would have paid for the record unit, which is \$534 per month.

The use of an electronic computer calls for employment of people with skill and experience and such people were, and are still, very scarce. Under our agreement, Remington Rand provided us with the assistance of highly skilled technical personnel who work with the Commission staff throughout this project. I cannot deny that we met with difficulty, but I can say—and I will refer to the difficulties later on—that the experiment in Winnipeg has enabled the Commission to test and prove the feasibility of a computer making decisions of pay determination where facts pertaining to the status of a claimant are complex and involved. In fact, if the Committee is interested there is a possibility of 77 items which we have to provide to the input of the computer.

The computer has also demonstrated that payments by a centralized and local office can provide—in the majority of cases—a satisfactory service to the public without having in its possession the record or the ledger of a claim. The constant practice up to then was to have a ledger of payment in all local offices. With the computer operation in Winnipeg, the local offices did not have that ledger. It was a test to find out if the staff could answer inquiries at local offices without having reference to that ledger card. We have learned through that experiment—proved—and this has been carried on throughout 1965-66—that there is a possibility of answering the majority of the inquiries at local offices to the satisfaction of the public without the ledger cards. We also needed to prove at that time its acceptance by the public, who were trained to report to the local office and had to report to a centre which was far away from the local office. This has also been proved as a possibility and we have not met with too many problems. We have had problems, but I would like to say in all honesty, that we cannot attribute all the problems to the machine itself. First, I would like to mention that we have trouble with the power voltage in the machine centre. This was corrected in January, 1965. We also had problems with the humidity in the machine centre. Apparently if there is a low humidity, it creates static which affects the tape on the machine. I am not an expert; I am just reporting to you what was told to me by the experts.

When we inaugurated the computer system in Winnipeg, we had put all the offices in the prairie region on payment by mail. With the introduction of this new procedure, we designed a new kind of report which we used throughout Canada in all cases where claims were paid by mail, and although we have done our best to make the form as comprehensive as possible have met with some difficulty, which everyone meets when a new form is introduced, in training the public to understand the questions and answer them correctly.

We also had to train the staff to answer inquiries without the ledger card. The staff has been trained over 25 years to refer to the ledger card. Whenever someone was in the local office they went to the ledger card and answered the inquiry, but that ledger card was not there any more it was in Winnipeg machine centre. Any time you introduce a new system, I believe it is human to expect that some members of the staff will have difficulties in understanding such new system; but I must state in all fairness to them they did their best to make the new system work. As the months went by, we succeeded in having the staff answer most inquiries without the ledger.

At the time we introduced the computer, we did not expect that the computer would make a pay determination on all of the cases. As we went on, we increased the number of pay determination decisions that could be made by computer up to 70 or 75 per cent of the cases. I would like to explain here that you may have the regular cases; that is, a case where a person has not changed his address, has not changed his name and has not worked and still has the dependants that he had when he first made his claim. But in the number of cases we have, we have people who may report they have worked for one day; people who have changed their address and this is only two among the 77 items I mentioned previously.

As we went on, we increased the number of pay determination decisions up to 70 or 75 per cent. The staff, who were connected with this operation, strongly recommended on occasions, that we should increase the number of cases to be handled by the computer. However, the Commission decided against increasing

the load, because we felt that, in our line of business, we should arrange our operation to make the payments as quickly as possible to the claimant, since we never know when delay could create hardship. Therefore, for that reason, the Commission decided not to increase the capacity of the load of the computer and this is the reason we stayed on with about 10 per cent of the work load as mentioned in the Auditor General's report.

I would like to state here that the undertaking we had with Treasury Board was that we would operate this computer for one year only. That is all the authority we had, because, as you know, it is the practice of Treasury Board that if you wish this type of equipment we have to call tenders and ask the different suppliers to make bids. We also had in mind, at the time we decided to experience the computer, in addition to the points I have made, the comments which had been made by the Senate Committee on Manpower and the Gill committee in their reports about the image of the national employment offices. Our effort was to try and liberate the offices in order to create a better image for the national employment offices by centralizing more of our operations. I would now be happy to answer your questions.

Mr. BIGG: I realize you are in the experimental stages, but I am just wondering whether your experience is shared with other departments. It seems to me to be a rather expensive experiment. Is there any way you can pass this information on to other departments so there will be no duplication of experimental effort?

Mr. FORTIER: What we learned and what we are doing with this experiment right now, Mr. Bigg, is that in the government right now there is a development of a data processing centre in Ottawa and we are working with the officials of that data processing centre for the carrying on of our development of that scheme.

Mr. BIGG: This is central?

Mr. FORTIER: Yes, in Ottawa we are working with the people at the data processing centre.

Mr. HENDERSON: In the centralized operation, Mr. Bigg, in the Treasury Board.

Mr. BIGG: I would like to ask something about the manufacturer's guarantee. Will there be any clarification of the guarantee in the future?

Mr. FORTIER: The manufacturer states:

Our guarantee is contingent on our understanding that the operating system as stipulated by the Commission at this time shall not be subject to changes which would impede or delay the operational target dates required.

We have not strictly speaking changed the operating system. But for the reason I have mentioned, with the difficulties we experienced with the new forms, the training of staff to answer inquiries, etc. the Commission itself decided not to go for more than the 9,000 or 10,000 claims that we had at that time, although the company and our staff recommended that we increase the load.

Mr. BIGG: In other words, you are satisfied that it was not the machine or the guarantee of the company which caused this added expense?

Mr. FORTIER: I would say that with the programs and all the input necessary to decide pay determination, and the contribution system that we also want to put on computer, there is no doubt that the hardware we had would not be sufficient. In my opening remarks I referred to the fact that the authority of Treasury Board was for one year. After that we would have had to ask tenders for whatever equipment we would need.

Mr. BALDWIN: I would like to ask Colonel Fortier if, in his opinion, there was adequate opportunity for discussion between his people and the manufacturer, in order to make known to the manufacturer the purpose for which the machine was required and to give the manufacturer full knowledge of the surrounding details so he would be aware of the kind of machine that was required, the purpose of the machine and the nature of the work to be done?

Mr. FORTIER: Yes, Mr. Baldwin, we did. I can say that even at the initial stage, when we developed the program and so on, we did not expect the machine to do all the pay determinations decisions. I would like to make this point very clear, but the program we had developed up to July was tested on a similar machine in Washington, that was before our operation was carried out. To answer your question in a shorter way, the company was aware of all these things.

Mr. BALDWIN: This brings me then to the root of the whole issue. I take it from the Auditor General's complaint that the fault lies with either the people who placed the order—in this case yourselves—or the people who filled the order. Now if you made known to the manufacturer and had adequate time to show him exactly what was required, and the machine did not meet the requirements, then I would ask you if it would not be correct to say that some measure of fault lies with the manufacturer?

Mr. FORTIER: The Auditor General in his report has suggested that we have not taken any steps against the manufacturer, and I must state that this has never come to our minds, for the simple reason that we could not put all the blame on the machine itself. We cannot deny that we had trouble with the machine, but at the same time we had problems with our form 379—that is the report that the claimants have to produce—and some difficulties with the answering of inquiries at the local offices concerned—I would like to say there were five offices on this scheme, Portage la Prairie, Fort Frances, Kenora, Fort William and Port Arthur. The main problems were in Fort William and Port Arthur, (we had no problems in the other offices to speak of,) the staff wanted to provide the service the public and numerous—demands were coming to the centre for information and of course we had to produce prints and this was slowing the operation.

We had trouble with the Servo machine, which was not a Remington Rand make. At that time they did not have their own, and I also mentioned we had some difficulty with the machine on account of the humidity involved.

The CHAIRMAN: Do you wish to pursue that a little further?

Mr. BALDWIN: I have another question, but you go ahead.

The CHAIRMAN: Proceed, Mr. Bigg.

Mr. BIGG: I wanted to know whether the fault was mechanical or in planning. If it was mechanical I think the company certainly had a direct

responsibility, and if it was in planning I think it might well be shared. The subtlety of what this machine could do under changed circumstances is a factor, but if the machine did not do mechanically what it was supposed to do and broke down due to power, the keys were not working, or they had to hold it out of business for two weeks until they got a proper mechanic and the mechanic was supplied by the company rather than by us, I think—

The CHAIRMAN: Mr. Bigg, the question I was going to ask follows exactly on what you said. In business you sign an agreement of purchase. My first question would be: Did you sign an agreement of purchase and secondly, did you get a written guarantee in the form of a letter or something of that nature from the company that this machine would produce as you requested in the agreement?

Mr. FORTIER: It was not a purchase, but a rental.

The CHAIRMAN: But was there an agreement of purchase signed by the government?

Mr. FORTIER: A rental agreement, to substitute for the record units we had in the prairie region.

The CHAIRMAN: There was an agreement of rental purchase?

Mr. FORTIER: Yes.

The CHAIRMAN: Then, did the company produce a guarantee?

Mr. FORTIER: The company produced a guarantee part of which I have already read.

The CHAIRMAN: Maybe you could read the pertinent part that would have to do with the guarantee.

Mr. FORTIER: I will read two paragraphs.

Univac Canada guarantees that the recommended system will be capable of handling 90,000 active claims in the Prairie Region, with initial payments commencing August 17, 1964 and can be fully operational as of September 1, 1964.

Our guarantee is contingent on our understanding that the operating system as stipulated by the Commission at this time shall not be subject to changes which would impede or delay the operational target dates required. Our performance guarantee covers that part of the total system which utilizes Univac equipment. We assume that other suppliers' peripheral devices shall have adequate output capacity to keep up with the processing capabilities of the Univac 1004 Model III system.

The CHAIRMAN: I have one question and then we will proceed to Mr. Baldwin.

With such paragraphs in a guarantee, did you not feel that you had ample reason to make a claim on these people?

Mr. FORTIER: This is what I tried to explain. First of all, we would have had to establish or assess whatever damages, or whatever claims we would have to make, and I suggest also that we would have had to make sure there was nothing wrong with our own operation. We were not paying for the rental of a computer,

as I explained previously, we were only paying the equivalent of the rent for the equipment we had removed from Port Arthur.

The CHAIRMAN: I do not think that has any bearing on the problem.

Mr. BALDWIN: You have taken part of the burden off me. I will continue along those lines as I intended to. I would judge, Colonel Fortier, that there was a little doubt in your mind whether or not the changes which you found you were compelled to make might to some extent have relieved the manufacturer from some of his responsibilities under this guarantee; but I would take it also from what you have said and what you have not said that you are not quite convinced that there was still not some responsibility resting on him; that the changes which you had made had not been of such a character as to relieve him entirely of responsibility?

Mr. FORTIER: I would like to say that in my own view, I could not find justification for a claim. I may be wrong, but that is my opinion. It never entered our minds that there was a claim there. When we started the operation on the program in July we realized that we could do more pay determination as the program developed. We increased and changed some programs up to December, if I recall, when we had the last run through and there was still some improvement to be made and we said "no". The reason was that we were coming to the work load period, and we have a business where we cannot defer or delay our payments. We have had trouble with the servo supplied by the company and that is one of the machines which is not a Remington Rand machine, am I correct in that?

Mr. FIDDLER: It is made by Potter Equipment.

Mr. FORTIER: We had that, and you could say this does not affect the guaranty. As to the operation, as a whole, had we been willing to take the risk involved, we could have put more claims on it.

Mr. BALDWIN: There might be some justification then for the comment of the Auditor General which appears on page 45 in the second paragraph:

The failure of this equipment was due to faulty planning by the Commission and the manufacturer. In the haste to make it fully operational before the 1964 winter claim. . .

In other words, the Auditor General suggests that, possibly, and it may very well be that pressure was put upon the Commission to get this thing operational. In order to arrive at this position within a limited time, it may well be that the Commission and the manufacturer together may have been somewhat at fault in trying to make this operational before adequate planning had been engaged in. Would the comment of the Auditor General be fair comment?

Mr. FORTIER: I would not say it was faulty planning, because immediately you have not achieved everything you wanted; because machine capacity is something that you have to develop through your program. It is true that we tried to put through as much pay determination decisions as possible and this is one of the reasons we had a computer, to establish that the machine could do pay determination decisions. This has proved to us that it can be done. In the carrying on of the program—if I may digress for a moment to help you understand the problem—we are making a study with the data processing centre

here in Ottawa, and the expert working on this project told me that the experiment in Winnipeg has advanced our study by nine months. Today he can go to the tapes that we run next in Winnipeg and get his answer. I cannot be technical, because I'm not an expert in data processing.

Mr. BALDWIN: I have one more question. This point was touched on by Mr. Bigg and it is the last paragraph in the Auditor General's comment. It says:

The case underlines the importance of manufacturers being required to indicate in precise terms the guarantees. . .

That seems to be fairly precise. Now, speaking of the commission, Mr. Fortier, we in this Committee have found from time to time an undue sensitivity in some government departments on trying to obtain compensation back from manufacturing companies where if, rather than working for the government, you were in the employ of a private individual, claims would almost certainly be made. It is my view that we run into these types of cases and this is why I attempted to ask the questions I did.

Mr. FLEMMING: My question is based on the Auditor General's Report, at the bottom of page 44, when he suggests that the manufacturer is equipped to do the necessary systems and programming work. At the top of page 45 he says that the installation was not a success. In your opinion, did the manufacturer carry out his undertaking to do the necessary systems and programming work?

Mr. FORTIER: My answer is that we had the services of the personnel of Univac, highly skilled programmers, two or three of them, who worked with our staff and if it had not been for the efforts of these gentlemen, I do not think we would have been able to get off the ground.

The CHAIRMAN: I think the answer to your question, Mr. Flemming, would be that if the company has fulfilled the requirements, you would not have had this trouble, you would still have the machine.

Mr. FORTIER: I have taken a short course on computers but I do not pretend to be an expert in this field. If we wanted to produce 106,000 warrants without pay determination with Univac's 1004, I believe that the Univac 1004 can do that. That is my personal opinion, and I believe it is shared by the others.

The CHAIRMAN: The company told you it would.

Mr. FORTIER: Yes, but where we had the trouble was with two tapes—they are called memory tapes—and with the complex operation of pay determination the two tapes certainly limit the memory of the machine. We have improved the programs originally designed by putting as much as we could on the machine—up to December, I believe—with success, but every time you make a change you are opening the door to possible difficulties. I believe that anyone who has a computer cannot put a program on the machine and have it work the same day. It is the Commission that decided not to increase the work load, or to allow new changes in the programs, and this in order to prevent any possible hardship to claimants.

Mr. FLEMMING: Was this the first attempt to concentrate and to regionalize what you had been doing in the various provinces. Was this the first place in Canada and would this be considered in the nature of an experiment on your part?

Mr. FORTIER: Definitely.

Mr. FLEMMING: And you feel the Commission did receive a good deal of benefit from the information knowledge you got from your experience at Winnipeg?

Mr. FORTIER: I have to affirm that.

The CHAIRMAN: Mr. Flemming, your question is related to what Mr. Bigg asked. Was the data processing people not involved in this type of operation at the same time and could you have taken advantage of their experience and information?

Mr. FORTIER: I think the data processing centre is a recent organization and was not in operation at that time. They may have had the nucleus of staff at that time, but they were not organized as they are today. I must say that if we do not have the computer in Winnipeg now, or for last year it is because whenever we want to test a program, we have now the necessary equipment here at the centre.

(Translation)

Mr. LEBLANC: Mr. Fortier, what was the duration of your contract with the Univac Company?

Mr. FORTIER: The contract was to last one year.

Mr. LEBLANC: One year.

Mr. FORTIER: We had a contract with Univac for 1964, to end in March, 1965, we renewed it, we use the term "reviewing" the contract until July, 1965.

Mr. LEBLANC: When did you realize that the machine did not perform the work you expected of them? What date?

Mr. FORTIER: I cannot say for sure that the machine could not do the work from the point of view of pay determination or issuing of warrants, but I cannot either infer that the machine was able with two tapes such as we had, two memories to accomplish all the 77 items possible in pay determinations with two tapes only.

Mr. LEBLANC: Would it have been possible, in the office, in the Winnipeg Centre, to return this machine to the nearest office to avoid the additional expenses?

Mr. FORTIER: This would not have avoided additional rent expenditures, because the agreement with Univac was that we would pay exactly the amount rent for the machine we had removed from Port Arthur, and if the operation, I want to be frank with you, if the operation had produced in January, and if we had decided to increase our operation in January, for instance, we would have drawn other machines from the offices and we would have saved the additional rental of these machines.

Mr. LEBLANC: Thank you for being honest with the Committee.

(English)

The CHAIRMAN: Gentlemen, I think we have spent enough time on this question. It will remain with the Committee to decide whether or not a claim

should have been made on this company and we will have to discuss that further.

On page 94, paragraph 7 reads:

7. COST OF DELAY IN RETURNING RENTED IMPRINTERS.—In 1963 the Department of Defence Production, on behalf of the Unemployment Insurance Commission, entered into a renewal contract for the rental of 2,500 aluminum plate imprinters for the period from July 1, 1963 to March 31, 1964 at a rate of \$1 per unit per month, payable in advance. When the imprinters were not returned by the expiry date of the contract the supplier claimed \$2,500 rental for the month of April 1964. Negotiations with the supplier led to his foregoing rentals on the 985 imprinters which had been received by him in the first seven days of April and the Commission paid rentals of \$1,515 on the remaining imprinters although none of them were used in the period.

Mr. HENDERSON: This is a non-productive payment having to do with the cost of delay in returning rented imprinters. It is a fairly short paragraph and Colonel Fortier will comment on it. I do not think it is necessary to read it.

The CHAIRMAN: I think the Committee would like to know why these were not returned in time to obtain credits.

Mr. FORTIER: There were two contract dates. We had one contract which finished on March 31, 1964 and the other one beginning April 1. The contract with Addressograph mentioned that there would be a number of those machines in our offices before April 1, and the Commission on March 9, 1964, instructed the local offices to return the machines we had been utilizing up to then.

A number of the machines were returned before April 7, and you can imagine when you have one contract expiring the end of the month and one starting on the first of the following month, how difficult it would be to say that all the machines in Canada would be in Ottawa or Toronto by April 1. We had to carry on our operations with the previous machines up to then. There was some delay in certain offices, delays which are attributed to our staff, who did not appreciate the importance of returning the imprinters as quickly as possible. Distance is another factor and also the question of packaging. We had a claim for the full rental of the month and after discussion with the company we came to a compromise to the extent of the figures the Auditor General has mentioned in his report.

Mr. BIGG: I think that someone is getting their pound of flesh out of the government and I would just suggest that we make sure that our contract terminations have a reasonable time lag for the returning of equipment.

Mr. FORTIER: It is an old contract that we had and it does not provide for a period of time to return the equipment.

Mr. BIGG: I am not blaming anyone in this case. As I said this pound of flesh is a one-way deal and I do not think this department was particularly lax; but to protect the government in the future perhaps we should make sure that the date of the contract has a reasonable time allowed to return the equipment belonging to the company.

The CHAIRMAN: Mr. Fortier, as you will appreciate the purpose of this Committee to look after the taxpayers' dollar and just as we said in the last case, I think it would be the feeling of the Committee that a claim should have been

made on the manufacturer. In this case this has apparently been so. Are there any other questions on this? Would the new contracts be—

Mr. FORTIER: The new contracts are different from the old ones which ran for a long time and we never became the owner of the imprinters. The new contract provides that by 1968, we will be the owners of the machines.

The CHAIRMAN: We are not apt to find this paragraph appearing again?

Mr. FORTIER: We have corrected that, we will purchase the machines outright.

Mr. BIGG: I have a supplementary. Dealing with this question of sharing knowledge with departments, I would just like to make sure that the other departments are warned against this company. They apparently are trying to get every last dollar out of us and we had better make sure that the contracts protect the public.

The CHAIRMAN: We will now turn to page 211, item number 11, which reads:

11. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

Mr. HENDERSON: Mr. Chairman, this is an item in the follow-up report which you will recognize and which I thought you might wish to take advantage of Colonel Fortier's presence to discuss. As you know this Committee has been stating in its past several reports and also in the follow-up report, that in its opinion it is in the public interest that the government's consideration of the report of the committee of inquiry be completed as soon as possible, and that the government bring forward such proposals as may be deemed necessary to deal with the problems raised by the report.

The committee made this recommendation back in 1961, at which time, I believe, the whole question of the Unemployment Insurance Commission was gone into very exhaustively, particularly its administration and it stems out of that. Perhaps Colonel Fortier would wish to say something on that point. There is also another point and that is, it was recommended by this committee that my certification of the annual financial statements of the fund be made a statutory responsibility of the Commission. I am carrying that work out now and signing them as though it were a statutory undertaking, and each year I certify these accounts for the Commission. I might say that the format of these statements, at the present time, will I am sure commend itself to you, particularly this past year, because of improvements Colonel Fortier has made in it. We now include all of the costs; therefore, we are hopeful that as and when the act is opened up this may be made a statutory requirement. Perhaps Colonel Fortier would like to add a word to those two points.

Mr. FORTIER: As you mentioned, Mr. Henderson, as far as the audit is concerned, you are doing it, and it is just a question now of confirming by law what we have agreed to. On the other point about the legislation, the Minister gave the information in the House the other day when estimates were being discussed, that they are intending to bring this legislation before the House and he expects this proposal will be in legislation pertaining to the Commission, but it might not be this year.

The CHAIRMAN: Thank you very much Colonel Fortier. Mr. Lefebvre.

Mr. LEFEBVRE: Before we leave the Unemployment Insurance people, I wonder if I could ask a general question? I understand Mr. Cuddy is the chief claims officer, and I wonder if he could enlighten the Committee on how you go about disqualifying people or admitting them to the unemployment benefits when they are retired employees of a company. I have had many cases and these people write to me continuously. They are retired after a long service with a certain company; they are admitted to the roles and then disqualified after a short period. Various reasons are given and among them given are that they demand too much money, or they are not willing to move away from their community. One case in particular is a machinist who had 40 years of service, and when he was retired he was earning approximately \$3 per hour; he registered for unemployment insurance and then was disqualified after a short time, because they felt he was demanding too much money per hour and that he would not move away from the community in which he had worked for 45 years. Personally I do not think people who have lived in a community for 40 or 50 years should be required to move away. I am sure if they were given the benefits they feel they are entitled to, they would not cause any more trouble and be glad to get the amount of unemployment insurance they are entitled to. Could you give us an opinion on this?

Mr. D. C. CUDDY (*Chief, Claims Operations Division, Unemployment Insurance Commission*): In reply to the question I would like to say that this is a big subject, and I do not think you will want to go into full detail. As you know we have in the act that a man must be capable and available for work and particularly with retired people this is a problem, because most of them are retiring from really active employment. The first question that arises is what type of work is this man going to do and is he able to do it. I suppose this satisfies the initial claim when he qualifies, but as time goes on and perhaps there is no possibility of his getting a job in the area, the umpire rules in these cases that the man be disqualified, if there is no prospect of his getting a job and he is a borderline case of whether he can take a job. This is actually jurisprudence which is established by the umpire and by which we administer the act and regulations.

Mr. LEFEBVRE: There have been instances where these people have been brought before the board, and they had to lie to the Commission or the referees by stating that they would go anywhere, anytime so they would be able to draw their unemployment insurance, but they had high hopes they would never be called to work, because they would have to refuse. I do not think we should put these people in the position where they have to lie in order to draw benefits.

Mr. CUDDY: That is not the point, Mr. Lefebvre. I think this comes down to the point where the man was definitely offered a job. The employment people

have a job and they offer the claimant the job and he refuses it, and under our legislation we have no alternative but to disqualify him. We are not expecting people to lie; we ask for the facts and we expect the facts to be straight, but we have to adjudicate, the same as anyone else who adjudicates a claim for insurance; whether it be car insurance or fire insurance, it is the same principle.

Mr. LEFEBVRE: In your opinion, sir, and with your experience, is there any way there could be a clause or a change made in the act so these people would not have to be put in the position of hoping they are not called, or having to tell a few white lies in the hope that the man who is interviewing them realizes that they do not wish to move away from their community?

Mr. CUDDY: Personally I do not think retired workers on pension should be actually eligible or filing claims for unemployment insurance. I think that now with the Canada Pension scheme they will have other means of having an income when they retire and actually they should not be coming under the unemployment scheme at all.

Mr. LEFEBVRE: This might be correct in the way you are stating it, but have you ever made any recommendations that this change be made in the act so this could be done?

Mr. FORTIER: I think this is a policy matter and I do not think Mr. Cuddy would be free to discuss this.

Mr. LEFEBVRE: But your opinion is valuable.

Mr. FORTIER: He was expressing a personal opinion there.

Mr. TUCKER: I would like to ask Mr. Cuddy if there as been any change in the method of unemployment assistance to fishermen?

Mr. FORTIER: Are they not getting too much already.

Mr. CUDDY: There is no change in that, Mr. Chairman.

The CHAIRMAN: We have other witnesses here, but just before the Unemployment Insurance people leave, I am sure you would be interested in this figure which Colonel Fortier has provided me with concerning the amount of money in the Unemployment Insurance Fund at the end of October, 1966. The fund at that time stood at \$249,462,697.83; therefore, with full employment, the fund is in good shape.

Mr. TARDIF: Is that the balance now?

The CHAIRMAN: Yes. Mr. Flemming.

Mr. FLEMMING: Are these figures on the condition of the fund available monthly to the public?

Mr. FORTIER: We do not make them available. Let me put it this way: We do not have a press release on it, but anyone who wishes this information can get it.

Mr. TUCKER: How does this amount compare with 1957?

Mr. FORTIER: The information I have here does not show that.

Mr. TUCKER: How far back does it show?

The CHAIRMAN: That order of the business is closed, gentlemen. We will now call on Dr. Willard and Dr. Crawford from the Department of National Health and Welfare. We will turn to page 56, paragraph 87, which reads:

87. *Unemployment Assistance.* The Unemployment Assistance Act, 1956, c. 26, provides for payment by the federal Government to the provincial and territorial government of 50 per cent of the cost of providing assistance to persons unemployed and in need. As early as 1958 our Report made reference to ambiguities in the text of the Act and to the resulting difficulties in administration. Subsequent Reports drew attention to further difficulties in administration that had come to our attention. These difficulties arose mainly from the inadequate definition of shareable costs and from the relationship between this program and other programs of social assistance. In our 1961 and 1963 Reports we recommended that consideration be given to the overall co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration.

The Public Accounts Committee in its Fourth Report 1963 concurred in the view that Parliament should give consideration to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. The committee also suggested that consideration be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field (see Appendix 1, item 4).

During 1965 discussions took place between the federal and provincial governments with a view to introducing a comprehensive assistance plan which would embody assistance to all persons in need, including those presently eligible for social assistance in such forms as unemployment and old age assistance and blind and disabled persons allowances.

During the year the following two additional questionable items of assistance were noted in provincial claims against the federal Government:

OVERLAPPING OF ASSISTANCE.—Section 8 of the agreement entered into with the provinces under the Act permits federal sharing of any additional relief payments made to recipients of other forms of social assistance, including Unemployment Insurance, in the circumstances where the basic assistance is not adequate to meet all of the recipients' needs. In one province Unemployment Insurance benefits received for the first two weeks of entitlement have been disregarded as income in the determination of need.

FULLY-EMPLOYED RECIPIENTS OF ASSISTANCE.—Assistance was being paid in one province to persons fully employed, to enable them to obtain housekeeping services where the spouse was unavailable or incapable of participating in family responsibilities.

I am sure you gentlemen have all met Dr. Crawford and Dr. Willard. I will now ask Mr. Henderson to start on paragraph 87.

Mr. HENDERSON: Mr. Chairman, the Unemployment Assistance Act is discussed in this paragraph. It first came out in 1956, and I thought that, although you want to hear from Dr. Willard, I might just say that ever since it came out, the audit office has encountered difficulties in checking the payments because of the ambiguities contained in this legislation. As far back as 1958, my predecessor quoted what the Minister said when he introduced this bill into the House. I would like to read to you my predecessor's comment at that time. He said:

There was general acceptance of the aims of the bill, but a degree of dissatisfaction existed with respect to the drafting, a leading member of the opposition for example, describing it as "a hodge podge of generalizations" which "leaves everything wide open."

That is the problem we have been faced with. In 1963, Dr. Willard came before the Committee and went into this matter exhaustively and it has been of very considerable help to me and my officers in pulling together the points ever since. He has been good enough to come today to bring this matter up to date.

The CHAIRMAN: Dr. Willard, would you like to bring the Committee up to date on this matter?

Dr. JOSEPH W. WILLARD (*Deputy Minister of Welfare*): Mr. Chairman and members of the Committee, first of all, I would like to add a word to what Mr. Henderson has said. It is quite true that the Unemployment Assistance Act has been a very difficult one to administer, and it has been helpful to us to have the Auditor General discover some of the weak spots in the course of his audit. Over the years we have corrected a number of these difficulties in our discussions with the provinces and have had very considerable back payments made by the provinces. The effect of that, of course, was that while the federal government received its share of payments that should not have been made under that act, it did not increase our good will with the provinces. Therefore, we in the department, as well as the Auditor General, and your Committee, sir, were quite anxious to try to get a new law which had fewer anomalies and we are very thankful that Parliament passed the Canada Assistance Plan, which has removed many of the difficulties that arose over the years, and we have been able to benefit by that experience. With respect to the first part of the Auditor General's report in paragraph 87, where he refers to it, it is our hope that as we bring this new piece of legislation into operation and as the provinces leave behind or cease to operate the Unemployment Assistance Act, we can certainly remove some of these anomalies which have occurred in the past.

There were two other points which the Auditor General raised; I do not know whether Mr. Henderson wants to comment on them before I take them up, or whether you would like me to proceed to them.

The CHAIRMAN: Perhaps we should just discuss this first.

Are there any questions on the first part of this paragraph? I would like to ask if the Canada Assistance Plan has been adopted by any of the provinces?

Mr. WILLARD: I might give a report on that, sir, that as soon as the legislation was passed the officials of the department went across Canada and met with provincial officials to start the long task of trying to work out the regulations, which of course extend the act in detail. They have visited all the provinces and provincial officials have come to Ottawa, and we are now at the

stage where those regulations are with the Department of Justice. The regulations are very important, because when a province signs an agreement with the federal government, it signs it with respect to not only the act, but also with regard to the regulations. Therefore, the provinces want to know whether the regulations and the act together are satisfactory from their point of view, and we of course want to be sure that the regulations fall within the scope of the act as set out by parliament. That has taken a very considerable amount of time.

In the act provision was made whereby payments for the sharing of the provincial mothers' allowances programs could commence immediately. All provinces are sharing under that part of the Canada Assistance Plan. Provision was also made in the Canada Assistance Plan legislation whereby payments could be made retroactively for any other aspects. In this instance I am thinking of things that might not be covered by the Unemployment Assistance Act, but which are covered under the Canada Assistance Plan. Our hope would be that when we get the regulations from the Department of Justice, the government would have an opportunity to consider them, they would be sent out to the provincial governments to consider and then we might be in a position about January 1, to have the order in council passed. And following the order in council, the agreements would follow and, as I said, it would be retroactive to April 1, 1966.

The CHAIRMAN: Thank you Dr. Willard. Do you wish to introduce another point, Mr. Henderson?

Mr. HENDERSON: I do not think it is necessary; they are contained at the bottom of page 56 under item 87. First of all, there is the overlapping of assistance and secondly, fully employed recipients of assistance. These are two more problems we encountered.

Mr. WILLARD: Mr. Chairman, with regard to the first one mentioned, it relates to the province of Newfoundland and in particular it relates to the outports. We have a classical difficulty here of the coming together of unemployment insurance and social assistance in an isolated setting. The problem is that the assistance payments which are paid to people unemployed and in need under the Unemployment Assistance Act are made immediately when the person is in need, and the payments of unemployment insurance on the other hand are retroactive payments. First of all, there is a waiting period of six days and then there is the difficulty of transportation and communication. The regional office is in Moncton, and for a considerable period of time the communication had to go from there. There is now teletype into St. John's and communication that way, but to get to the outports, it takes sometimes two or three weeks and sometimes more. Therefore, from the date a person applies for an unemployment insurance cheque to the date he actually gets it may be a very considerable time.

The recipient of assistance applies for assistance when he needs it, then the local authorities working for the provincial government put the person on assistance. Some weeks later the unemployment insurance cheque arrives and if there is an overlapping in the period, then the problem of recovery is a real one, because these are destitute people and the unemployment insurance payment is quite modest; therefore to try and pay back the assistance payment and to live on the unemployment insurance creates a difficulty. We have been plagued with this problem in the case of Newfoundland and the outports for a number of

years, and have tried to work out some solution. First of all, there are not large numbers of people involved and secondly, they are in a situation where their need is very considerable. Thirdly, while we pay under unemployment assistance benefits for a wide range of social assistance cases this only applies to those who are qualified for unemployment insurance. In that sense, the number is quite limited.

The Deputy Minister of Welfare from Newfoundland informs us that the number of cases where the person who is entitled to unemployment insurance goes off unemployment insurance and must come back on unemployment assistance is quite considerable. Where that happens, in the classic case, you would have no difficulty, because putting the person back on assistance you would be doing it after they have received their last unemployment cheque. Because of difficulty sometimes in the way they have applied for unemployment insurance, or because of the information they have given and because of the time lags and so forth, we do get some cases where there is overlapping. We have tried to work out an administrative rule to indicate that we would, for the first two weeks, knowing that in practically no case would they have unemployment insurance, share the cost of the unemployment assistance during that period.

Under the unemployment insurance legislation agreement section 7 (b) states:

There shall be excluded from the reimbursement claim any person, together with any payment made to or on behalf of such person, who is...a person in receipt of...unemployment benefit under the Unemployment Insurance Act.

Notwithstanding that subparagraph, section 8 states:

There may be included in the reimbursement claim any additional relief payments made by the province or by a municipality to persons described in the said subparagraph and the number of persons to whom such payments are made if such persons are unemployed and in need.

This paragraph in the normal case refers to the situation where unemployment insurance is not enough to keep the body and soul together, or to maintain the family, and we come along and supplement it with assistance. In this case, I have taken the approach that where the person has been paid during these first two weeks, in fact we are reimbursing a claim under section 8, which is a different approach from that which we have followed in the past with regard to just supplementation.

I think that, having regard to the administrative costs of following any different approach, this is the sensible one to take. I realize that it is the first instance where we have interpreted that section in that way, and I think the situation justifies it. I am happy to say that this will not continue to be a problem under the Unemployment Assistance Act, but I think that we may face similar problems with regard to the Canada Assistance Plan, once it becomes operative. I do not know of any other way we can get around it. The administrative costs for the few cases in some of these outposts—and of course there can be many outposts—but the administrative costs and getting around to each of them and so forth and applying some other procedure seem difficult. That is the situation we are in; we are in the hands of the Committee as to whether there is any other approach we should follow, or whether the one we have followed

seems to be a practical pragmatic one and, as I believe, within the spirit and fact within the legal requirements of the act as it now stands.

The CHAIRMAN: Thank you, Dr. Willard. Are there any questions on this. Mr. Tucker can start in view of the fact that Newfoundland was mentioned and then Mr. Flemming can follow.

Mr. TUCKER: Thank you. I would like to have a further explanation on the meaning of "putting back on assistance". What do you mean by this?

Mr. WILLARD: You could have one case where the person was on assistance and in due course—

Mr. TUCKER: Do you mean unemployment assistance?

Mr. WILLARD: Yes. Then eventually a cheque arrives from the Unemployment Insurance Commission; they then go off assistance, because that cheque maintains them. When they exhaust their unemployment insurance benefits, they then go back on unemployment assistance, and that is the case I mentioned.

Mr. TUCKER: How could they get back on unemployment assistance the second time?

Mr. WILLARD: Because they are unemployed and in need and they have no unemployment insurance benefits.

Mr. TUCKER: But they have to get stamps to qualify.

Mr. WILLARD: No, not for unemployment assistance.

Mr. TUCKER: You made reference to Newfoundland particularly. What is the difference between Newfoundland and the provinces of New Brunswick and Quebec.

Mr. WILLARD: The difference in this instance is that we have not encountered it in the other provinces. I think the outports do have a special problem, occasionally because the unemployment insurance cheque has to go by mail and sometimes you have both rail and water transportation to get to the isolated outports.

Mr. TUCKER: Not so much today, sir. In a majority of cases, you get mail service every day.

Mr. LEFEBVRE: I have a supplementary, Mr. Chairman. Do the assistance payments equal the unemployment insurance benefits?

Mr. WILLARD: They may be more and in that case the individual may ask to have some supplementation from assistance so you can have some individuals receiving both unemployment insurance and unemployment assistance.

Mr. LEFEBVRE: At the same time?

Mr. WILLARD: Yes.

Mr. LEFEBVRE: And when the unemployment insurance benefits run out, do you then increase the assistance amount?

Mr. WILLARD: Yes, that is right. You see, in qualifying for unemployment assistance, it is on a needs test basis and they have to take into account their sources of income, and unemployment insurance is taken as a source of income.

When that source disappears, then they reapply for additional assistance payments.

Mr. LEFEBVRE: In other words, this could go on for an indefinite period?

Mr. WILLARD: That is correct.

Mr. LEFEBVRE: For years?

Mr. WILLARD: Yes.

Mr. LEFEBVRE: Do you have cases like this?

Mr. WILLARD: You are bound to have some cases where persons are chronically unemployed, where the borderline between the employable and the unemployable is very indefinite. Therefore, you have certainly many unemployables who have been on assistance for many years, and one of our hopes under the Canada Assistance Plan where we are placing great emphasis on the question of rehabilitation is that the provincial departments will strengthen their staffs in an effort to try and rehabilitate the person who is marginal here and might become unemployable if he is left on assistance too long, and try to get him back into the labour force.

Mr. LEFEBVRE: Like the manpower training plan?

Mr. WILLARD: Yes.

Mr. LEFEBVRE: This would help quite a bit to lower the amount of people under your assistance?

Mr. WILLARD: Yes, and provisions for paying for the movement of people from one part of the country to the other.

Mr. TUCKER: Can a person draw Canada assistance and unemployment assistance at the same time?

Mr. WILLARD: No; in the province it would be their social assistance program, but they get reimbursed from the federal government for only one or the other.

Mr. TUCKER: That would be relief, would it?

Mr. WILLARD: Yes.

Mr. FLEMMING: Dr. Willard has partially answered my question in response to some other questions, but my question was to deal with the fact that after the recipient has received the unemployment insurance cheque, the assistance cheque becomes available and it is delayed, owing to the fact that there has been administrative difficulties to which the refers. I quite appreciate how difficult it would be to ask them to reimburse the amount received. You mentioned Dr. Willard that many of them were in need and destitute and certainly the remittance was very much needed. My question is: Is there any way of determining the needs of the individual except from that information which comes to you from the provincial authorities and through the welfare office of the provincial government. Is this where you get all your information?

Mr. WILLARD: That is correct. In the individual cases it would either be a provincial department administering it directly, or a local municipal department administering it on its own for the province. In each case, they carry out the

needs test and that determines what the payment will be. Then the provincial government brings all these together and submits them and then they claim 50 per cent reimbursement from the federal government. Therefore, we do not see the individual cases in the department; we go to the provincial offices and review their records, and so forth, and in problem cases such as this, we review with them the exact way in which they are carrying out the procedure and how it works and try to make sure it is within the scope of the act. If it is not, then we tell them we cannot reimburse for that particular thing.

Mr. FLEMMING: Generally speaking your contribution is 50 per cent?

Mr. WILLARD: Yes, under the Unemployment Assistance Act.

Mr. FLEMMING: Except under the Unemployment Insurance Act there would be a larger contribution indirectly?

Mr. WILLARD: Yes, the unemployment insurance payment is, of course, as of right and it is related to previous contributions and therefore the amount a person gets, will be relatively low if his income is relatively low, because it is a graded benefit. In low income areas, the need for supplementation quite often occurs more than in high income areas, because the level of benefit under unemployment insurance may be quite modest.

Mr. FLEMMING: Are your contributions becoming less or more as you go along. What is the situation in general terms?

Mr. WILLARD: The federal cost in absolute terms has been going up and this is for a number of reasons. One of the reasons is that we have been covering more things. For instance, the Canada assistance plan now will cover mothers' allowances; it will now cover welfare services and if we put this rehabilitation content in, it will cover medical care for people on assistance. Therefore, the cost on this factor is going up.

As to unemployment, it varies very considerably with the general economic conditions. If we hit a soft spot in the general employment situation in Canada, we can expect our costs to go up. Generally, the rates of payment have been going up, as the cost of living has been going up, as rents have been going up over the years. Thus we have had a long term-trend of increase in costs, because living costs are going up, and assistance is geared to basic essentials of living and as they go up, our costs go up with them.

Mr. BIGG: With the social security number surely our centralization of records has been greatly facilitated. I have been a welfare officer myself so I know about welfare, and for the information of the Committee I might say that it is almost impossible in Canada today to starve to death for want of government help, because we have welfare officers spread all over the country and the R.C.M.P. are doing it in undeveloped areas like the Northwest Territories. Where there is no municipality, all a family has to do is report to the official concerned usually the mounted police or the welfare officer and they get \$30 immediately, which will buy a considerable amount of flour, tea, sugar and that sort of thing. I should say they have the authority to spend \$30 immediately for any distressed family. This question of reimbursement is very tricky, because having spent it on sugar, tea and flour, there is just no way of recovering it. I am glad to hear the department has this in hand, because it is just a paper entry to get it back. There should be machinery set up with the provinces so that when this sort of relief is

given—I would say that 90 percent of this type of relief is absolutely required—there should be no question about trying to recover this type of payment. In the first place it is impossible and it is also inhuman.

Mr. LEFEBVRE: Where do you get the \$30?

Mr. BIGG: I said mounted police would have the authority to tell the person to go to the nearest store the Hudson Bay Company, and draw \$30 worth of groceries, and this would automatically be covered by the provincial government whether they get half of that from the federal government I do not know. I was just thinking that we could get carried away with this humanitarian idea, but if the case is known, it is almost impossible for a family to starve to death in Canada. I wanted to add that you should not even try to be reimbursed for this particular type of relief in the first place and in the second place I do not see how it has any bearing on whether they are being overpaid—they are not being overpaid; this is just subsistence. I thought I would volunteer that information, because we are a policy forming group.

The CHAIRMAN: The next paragraph concerns fully employed recipients of assistance. I think it will be more interesting to learn how this would come about.

Mr. WILLARD: Mr. Chairman, in British Columbia provision is made for a payment under the social allowance program of the cost of housekeeping or homemaker services, in cases where a parent is not available or is incapable of carrying out family responsibility. It was learned that such payments were being made in cases where the family head was fully employed, and that these payments were being included in claims under the unemployment assistance agreement. This is contrary to the agreement which requires that recipients be unemployed and in need. This was drawn to the attention of the provincial authorities and a directive was issued by them to their field officers indicating that in the future, such cases should be treated as non-sharable for claiming purposes.

A refund has been made of the federal share of \$12,400 involved in cases that were drawn to the attention of the provincial authorities. We have corrected this point. I would add that under the Canada Assistance Plan we have really brought the federal legislation into line with most provincial legislation, in cases such as this. This is the circumstance where there may be one member of the family is alive and he may be on relief; he has been able to get a job, but he needs a housekeeper or homemaker to look after his children if he is to maintain the job. The authority under the Canada Assistance Plan, as it now stands, is that we will share costs such as this, if a person is likely to be in need.

The provincial authorities obviously are not going around paying all kind of payments to people who are ordinarily working, but if it is a marginal case where they are trying to rehabilitate the person, or where, with a little supplementation to the very low wage he is getting, they can hold the family together and make it work, it may be a working mother, the father may have deserted and it may be a case where her wage is just a little too low to be able to feed and clothe the children, look after herself and also take care of the homemaker service. In this case they would come in and contribute to that. Under the Unemployment Assistance Act we could not share in this, but under the Canada Assistance Plan, we will be able to share. The costs are not large, but

here again it is the kind of thing where the emphasis is on the rehabilitation of the family in trying to see them through.

Mr. PRITTIE: Mr. Willard, you are not being specific at all to what extent you will share. I am interested, because I came across a case in Ottawa a few weeks ago where a mother has deserted and the man has four children and has a reasonably good job that probably pays \$500 a month, but he wants to keep his family together and he is finding it quite a struggle even at that pay to have a full-time housekeeper. To what extent will Ontario help out?

Mr. WILLARD: It will be up to the province to determine the policy, but within our act they would have to determine that if they do not come through with such assistance, then the family is likely to be in need, in which case it would cost them a great deal more. I cannot say much concerning the case you quote, because I think you would have to know all the details to know what approach they might take. Each individual circumstance would have to be looked at very carefully, because this is really designed for the situation where you say that if we do not do something, then we will have them on our relief rolls and it will cost us a lot more than if we give them a little bit of money and add to it to keep them off assistance. This is really the approach.

Mr. PRITTIE: But you are not operating under the Canada Assistance Plan in this regard yet. You have no agreements with the provinces?

Mr. WILLARD: No.

Mr. PRITTIE: But you expect to have by the beginning of the year?

Mr. WILLARD: That is right, and from here on this kind of business of assistance to people who are likely to be in need will be operative as far as the federal government is concerned. In the instance referred to in the Report we could not share under the law. We went back and received the refund.

Mr. BIGG: Would it be fair to say that the policy also was to have everyone hired at the most productive level. For instance, a nurse staying home to look after a lot of small children might be better employed in a hospital and have a good capable girl to look after her children during the day so she could go out and work in the hospital?

Mr. WILLARD: That is quite true. In other words, if she has training as a nurse, her income could be greatly increased rather than staying home as a homemaker and receiving the full assistance payment. You could get away with less assistance in this instance by a small supplement.

The CHAIRMAN: Gentlemen, the next paragraph will be handled by Dr. Crawford. Mr. Henderson, would you like to introduce it?

Mr. WILLARD: Mr. Chairman, I wonder if I might be excused at this point.

The CHAIRMAN: Yes. Thank you very much for coming, Dr. Willard. We have learned a lot about the proposed plan when it becomes operative.

Paragraph 88 reads:

88. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* In previous years doubt has been expressed as to whether the terms of the agreements with the various

provinces under the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, relating to payments to federal hospitals, were being adhered to in all cases.

In our 1963 Report reference was made to the refusal of the Province of British Columbia to pay Miller Bay Indian Hospital for insured services to insured residents when the accounts were not accompanied by a certificate from the nearby Prince Rupert General Hospital that they had no accommodation available, despite the fact that the Indian hospitals had been included in the Hospital Insurance Agreement with the Province in recognition of their role in providing general hospital care to Indians. Reference was also made to reimbursement at per diem rates set by the Province below cost and below the corresponding rates at the Prince Rupert General Hospital, and to the fact that the Province deems some of the care given insured patients unnecessary and will not pay for it.

The Province of British Columbia has now agreed to accept a maximum of 4,400 patient days per year for which payment will be made to the Miller Bay Indian Hospital without a certificate from the Prince Rupert General Hospital as to the non-availability of accommodation. However, the number of patient days for insured services during 1964 exceeded the allowable limit by 25% and payment for the excess amounting to \$13,000 has been refused by the Province.

In our 1964 Report (paragraph 68) we drew attention to the situation in Alberta where, although the rate payable to federal hospitals has been fixed by provincial regulations, the Province has for several years paid less than this rate on the grounds that the lengths of stay in federal hospitals are considerably above the provincial average.

We also noted that the accounting in federal hospitals generally was not in accordance with the Canadian Hospital Accounting Manual which provides a basic accounting system for purposes of the Act; that accounting and medical records in some Indian hospitals could not be said to be adequate for preparation of the necessary financial returns required by the agreements with the provinces; and that it was not always possible to determine rates by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions. We recommended that steps be taken to bring federal hospital accounting in line with requirements where necessary and that revisions to the agreements should be made to the end that all the terms may be fully complied with.

In the circumstances it is still not possible in all cases to appraise the adequacy of settlements being made by the provinces for services provided under the agreements to insured patients in federal hospitals.

Mr. HENDERSON: This paragraph deals with the provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act, and, as you see, doubt has been expressed whether the terms of the agreements with the various provinces under this legislation relating to payments to federal hospitals were being adhered to in every case.

We had an instance three years ago in British Columbia, and you will see the outcome of that in the third paragraph; the number of patient days for insured

services exceeded the allowable limit by 25 per cent and payment for the excess amounting to \$13,000 was refused by the province.

In 1964, we drew attention to the situation in Alberta where the province for several years paid less than this rate on the grounds that the lengths of stay in the federal hospitals are considerably above the provincial average. It all boils down to the fact that it is still not possible in all cases to appraise the adequacy of the settlements being made and I think that is the reason the Committee wishes to hear from Dr. Crawford.

Dr. J. N. CRAWFORD (*Deputy Minister, Department of National Health and Welfare*): Mr. Chairman and gentlemen, the trouble is that when we embark on this question, we are getting into an area which is tremendously influenced by personal and individual judgments. You see, provincial governments pay under the Hospital Insurance and Diagnostic Services Act, for certain kinds of hospitalization. They pay for bona fide active treatment and some of them pay for convalescent care. Under this act, none of them pay for nursing home care or for "half way house" care.

We, in our medical services, operate hospitals that provide the whole spectrum of care. We have some active treatment; we have considerable convalescence and we have a good deal of just supervised housekeeping care, because we are waiting for our patients to get back to their homes, which are not adequate to receive them at this time: therefore the question arises as to what specific patient should be paid for under hospital insurance by the province and what patient is not a fair charge on the provincial plan. The question of individual judgment comes in here.

If we had a situation where the province had a referee team that could move into one of our hospitals and look at our patients, together with our medical staff, we could come to an agreement right then and there with the provinces whether patient A was a proper charge against the provincial plan or not. We do not have that sort of survey team in any province, or at least not in many. We have come to a situation in some provinces, particularly in British Columbia and Alberta, where sometimes our judgment as to where a patient belongs, what class he should be in, does not agree with the provincial judgment. We have made compromises of one kind or another to try and adjust this without a tremendously complicated administrative procedure.

The first paragraph of the Auditor General's comment talks about the situation in Miller Bay where, at one time, the province was insisting that we should not be doing any active care in Miller Bay, because this in effect was enlarging the hospital bed situation in British Columbia and this they controlled. They told us that we must send all our cases to Prince Rupert General Hospital, seven miles away, and only if the hospital certified that it cannot accommodate them would they be accepted for payment in Miller Bay. We got this corrected by accepting, somewhat reluctantly, a proposal of the province that they would pay us a maximum of 4,400 patient days a year. At the time this looked pretty good. It was very nearly double what we thought our active bona fide demands would be on the plan. Something happened and I cannot explain what it was, but in 1964, we exceeded that 4,400 days. There are a number of possible explanations; the country was opening up; communication with Miller Bay hospital was a bit better. There was a possibility too that we were not exactly accurate in assessing

the number of cases we had, either in making the original estimate, or in making the estimate which resulted in 25 per cent more than the 4,400 days.

We are now reviewing these cases that accounted for the excess over 4,400 days, and it is quite possible that our judgment will be altered on whether or not they were a fair charge. However, we did by an exchange of letters, come to this understanding with the province of British Columbia that an easy way out would be to say: "All right, you will pay us up to 4,400 days without question, and we will try to live within that." In general we think the global amount which we receive is not too far off what we should get. It is a question of judgment again.

We do think, now that we are implementing more exact scrutiny of patients, that in the current year we will be pretty well within that limit of 4,400 patient days. We exceeded it in 1964, by 25 per cent and there is a sum of \$13,000 outstanding. This interests you. What should we do about trying to get it back; how far do we press the province; how hard do we press them? I would ask you to bear in mind the fact that we are talking about \$13,000 in a branch of the department that now has an operating budget of \$37 million, or thereabouts.

There is no doubt that, as the situation stands at the moment, we think British Columbia owes us \$13,000, but we are not absolutely sure that they owe us this amount, because the class in which these patients fell, might be subject to an honest difference of opinion. Well, so much for Miller Bay!

Mr. FORBES: Before you leave that, may I ask a question. On what basis do you estimate the number of patient days that you would pay for, in the instance of British Columbia you say 4,400. Is this based on the population of the province?

Mr. CRAWFORD: No, this is based on our operating experience in the hospital at Miller Bay of how many patient days we had in the course of a year that we felt could be justifiably charged against a provincial hospital plan.

Mr. FORBES: But would this not be based on the population of that area?

Mr. CRAWFORD: Of course, it is affected by the number of people who use the hospital, which is in turn affected by the number of our clients, who are Indians, in this particular area, and the ease of access which they have to the hospital. This is why I suggest that this is one of the reasons that we badly underestimated the number of patient days. It is easier for them to get in and more people are coming.

Mr. BIGG: Is it not possible that this is because the federal government has a greater responsibility for certain classes of people, among these Indians, and I would suggest veterans as well, although this may not be so in that particular hospital; that we take a greater responsibility for the health of certain classes of people than the provinces. Is this a fact?

Mr. CRAWFORD: I think the fact is that where we are in the business of providing hospital or institutional care, we take a rather broader view than the provinces do and we say when this man or woman goes back to his or her home, he should be able to get along there. Therefore, our length of stay is longer. We get the active treatment over probably as quickly as anyone else, but then we have a prolonged period of convalescence and observation, which is a welfare operation, if you will. We think it is good medicine.

Mr. BIGG: I have 31 Indian reserves in my particular district, so I know something about this. Is it not true that a sick Indian child cannot go home to his own environment. We can take our children home and give them reasonable bedside care in the average home, because we have running water, electricity and that sort of thing, whereas an Indian child getting over tuberculosis or a lung condition just cannot go home, so you keep them beyond the average stay?

Mr. CRAWFORD: You are quite right.

The CHAIRMAN: Mr. Lefebvre, you are next.

Mr. LEFEBVRE: There is a paragraph here that I would like to ask Dr. Crawford about.

We also noted that the accounting in federal hospitals generally was not in accordance with the Canadian Hospital Accounting Manual, which provides a basic accounting system for purposes of the act; that accounting and medical records in some Indian hospitals could not be said to be adequate for preparation of the necessary financial returns required by the agreements with the provinces.

If this is correct, sir, what has your department done to remedy this particular situation?

Mr. CRAWFORD: It is correct, and we have issued instructions that standard hospital accounting procedures will be instituted in our hospitals. We are not getting an immediate affirmative response to this, again, for a number of reasons, because many of our hospitals are fairly small and many of them are pretty complex, as I have indicated, in their patient population. Our staff is oriented to an attitude of service rather than that of accounting. We are having troubles with this, but we are making progress. In the department, we have set up a financial management project team which is now in the process of taking a look at this very question, among others, and we would expect that the recommendations of this team will be possible of implementation in 1967 or 1968. Mr. Aitchison who is here with us is our financial officer and he can give you more details about this project than I can.

Mr. LEFEBVRE: Would these accounting practices now be instituted in your Indian hospital at Miller Bay?

Mr. CRAWFORD: Well, Miller Bay, I hope—

Mr. LEFEBVRE: Is this a small or a large institution?

Mr. CRAWFORD: It is relatively small. It was originally set up as a tuberculosis hospital. Mr. Bigg suggested that this committee was a policy making organization, at least had an influence on policy, and I hope you gentlemen will agree with me when I say I believe that Indians should be treated in the same way as other citizens of the community. Even if we are paying their hospital bills or medical bills or helping them to pay their own hospital bills or medical bills, the kind of treatment should be the same for white and for Indians, and they should use the same institutions. That being so, we would very much like to close Miller Bay up as a hospital, and as soon as we can make satisfactory arrangements to enlarge Prince Rupert General, we propose to do so. This is under study now. The question that you posed is are we using this accounting process in

Miller Bay, I would say "no" and we may not be able to get it established in Miller Bay before we close the place up.

Mr. LEFEBVRE: But Mr. Bigg brought up something very interesting when he said that owing to the fact that a lot of Indian families do not have the conveniences that we have, they have to remain in hospital much longer than the other residents would. Now how are you going to get the provinces to agree to pay for longer periods?

Mr. CRAWFORD: We do not have to keep them in hospital. We have to keep them in some sort of institution, a "half-way" station, a nursing home or whatever, which the provincial plan is not going to pay for. We will have to make some arrangements to pay for it, possibly; if adequate provincial institutions for this purpose do not exist, we will have to operate them, but we would hope that we could get the provinces—

Mr. LEFEBVRE: In the case of Miller Bay Indian hospital, this could be turned into a nursing home or a convalescence home?

Mr. CRAWFORD: I do not know if its physical structure will stand up that long. It is pretty shaky.

The final paragraph of the Auditor General's statement is something that I agree with, but with the circumstances it is still not possible in all cases. What we are trying to do is classify these people as best we can in our judgment, to reach an agreement with the provinces as to the kind of classification we make and get paid on that basis.

The CHAIRMAN: Mr. Bigg is next and then I think we shall adjourn.

Mr. BIGG: We are responsible for the health of Indians under the Indian Act, and so there is no recovery in treatment cases from the Indians and therefore a detailed audit system like this in an ordinary general hospital is not required where they are largely Indians.

Mr. CRAWFORD: I do not think I would go so far as to say that we are responsible for the health of Indians under the Indian Act. This of course is a matter which is—

Mr. BIGG: Let me put it this way—

Mr. CRAWFORD: We have moved into this vacuum and since no one else was doing it, we moved in and are doing it, but we think the provinces should be involved to a much greater extent than they are.

The CHAIRMAN: We will have one closing remark by the Auditor General on page 215 paragraph 34 and it has to do with our Eighth Report.

Mr. HENDERSON: This is the last item, Mr. Chairman and it has to do with hospital construction grants. This is an item outstanding in the Committee's follow-up report. In 1964 the Committee informed the House that it shared the opinion of the Deputy Minister of Health, Dr. Cameron, who was Dr. Crawford's predecessor, that since it is inherent in the hospital construction program that commitments be entered into for future years as well as for the current year, the financing of the program be placed on a period of years basis with parliamentary control being exercised over the total commitments that may be entered into.

This is outstanding and perhaps Dr. Crawford would care to say where that matter stands at the present time.

Mr. CRAWFORD: Mr. Chairman and gentlemen, I think at the time this question was opened, it made a great deal of sense certainly on the question of hospital construction and in many other areas of research spending, and so on. Obviously, it is neater and tidier and much more efficient to be able to commit funds over a period of years. However, all I can do really is call your attention to recent announcements that the hospital construction grant was one of those which was due to disappear under the tax structure committee recommendations, and that at our urgent request, because we had to forecast somewhat in advance, we got this extended for an additional year, and the hospital construction grant is now being given life until 1970. At that time, as far as I know, because this is a policy matter, other arrangements will be made for hospital construction. Whether you would feel it reasonable and indeed whether the government would care to accept a recommendation to put this on a term of years basis as this point in time, with the foreseeable life of 1970, I am quite unable to say.

The CHAIRMAN: Are there any questions?

Mr. BALDWIN: I have one question of Mr. Henderson. This is basically in line with the Glassco recommendation, which has been referred to by the Auditor General and has been the subject of discussion in this Committee, of program estimates, so there is a greater measure of control and knowledge in the House of Commons, as shown in the blue book and dealt with in this Committee, of the total commitments from time to time rather than just yearly.

Mr. HENDERSON: I think this would make complete sense, Mr. Baldwin, but as far as Dr. Crawford's statement is concerned, I believe he was referring to the one made by the Minister last January. Inasmuch as it runs until 1970, I would suggest to the Committee that you might wish to withhold advancing this particular view or recommendation until you get closer to that time. Would that make sense Dr. Crawford?

Mr. CRAWFORD: I take that view, Mr. Henderson. The hospital construction grant has gone on with the same dollar figure for a great many years and we have had revotes of unexpended money and in effect we are using this as a period of years operation, in spite of the fact that it is subject to annual appropriation. Whether it is now pressingly necessary to change this with something that is going to change, at any rate—or so we are given to understand—within a relatively short period of time, I am dubious about it.

Mr. BIGG: I have one question. Is this in the nature of blank cheque as it is now that we would actually provide dollar to dollar with the provinces, or is there some control over the expenditure?

Mr. CRAWFORD: Oh, no. First of all, Dr. Wride, the expert on this is here.

Dr. G. E. WRIDE (Director, Health Grants, Department of National Health and Welfare): Roughly we provide \$2,000 per bed and more for certain eligible areas and this would come to probably \$2,700 or so a bed. This is not as much as the province gives itself; therefore, it is not dollar for dollar.

Mr. BIGG: What I meant was, if a province went wild on hospital construction, have we any control of the number of beds that we are willing to subsidize?

Mr. WRIDE: We accept provincial planning for the construction of beds in the province.

Mr. BIGG: Then we do not have to worry about a province going overboard on this?

Mr. WRIDE: They have not so far. They only have so much money each year and each province works within this amount.

An hon. MEMBER: Is there a danger of this happening?

Mr. WRIDE: No.

Mr. BIGG: I may be wrong, but I think we should have some kind of ceiling on the taxing of the federal budget, because it seems to me to be wide open at the top.

Mr. HENDERSON: The point really is that the only intelligent way of doing it is to program it over the years and that is what the Committee had in mind in recommending it. Now, in view of the fact that the present program is set until 1970, is there anything to be gained by the Committee coming out today or would it not be better to leave it until 1968, or thereabouts. We will be keeping it in mind and discussing it with the department.

Mr. BIGG: My point was that in view of the fact there is a cut-off some province may say, we had better go ahead and build a few hospitals now, because federal assistance is going to be cut off and we might get into the position where we have built a few white elephants.

Mr. HENDERSON: We could count on Dr. Crawford to watch that aspect of the situation.

The CHAIRMAN: Mr. Bigg, you mentioned the word cut-off and that is what we are going to do right now.

Next week is our last meeting and at that time we will have the taxation department here, so please try to be present. That will be our last meeting I hope everybody will be present. The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

12

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 30

TUESDAY, NOVEMBER 29, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; From the Department of National Revenue (Taxation Division): Mr. D. H. Sheppard, Deputy Minister of National Revenue (Taxation); Mr. E. S. MacLatchy, Director, Legal Branch; Mr. J. Delavignette, Registrar-Examiner of Charitable Organizations; and Mr. G. F. Barclay, Superintendent of District Office Administration.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Prittie,
Mr. Racine,

Mr. Schreyer,
Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
 neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 29, 1966.
(40)

The Standing Committee on Public Accounts met this day at 9.55 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Flemming, Forbes, Hales, Leblanc (Laurier), Lefebvre, Prittie, Tardif, Thomas (*Maisonneuve-Rosemont*), Tucker (10).

Also present: Mr. R. McKinley, M.P.

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Laroche and Murphy of the Auditor General's office; From the Department of National Revenue (Taxation Division): Mr. D. H. Sheppard, Deputy Minister (Taxation); and Messrs. MacLatchy, Delavignette, and Barclay, departmental officials.

The Chairman read a letter from the Deputy Minister of Defence Production concerning Mr. J. E. Brisson's answer to a question on November 1, 1966 (*See Appendix "12"*).

The Committee ordered that an attached submission made by the Department of Defence Production, March 4, 1965 and the legal opinion from the Deputy Attorney-General dated April 13, 1965 be appended to today's Minutes of Proceedings and Evidence. (*See Appendix "18"*)

The Chairman introduced Mr. D. H. Sheppard, Deputy Minister of National Revenue (Taxation) and his associates.

The Committee reviewed the following items from the Auditor General's Report 1965—

	Paragraph
Charitable Donations	101
Remission of income tax on per diem allowances	102
Accounts receivable—Taxation Division	169

The Committee questioned Mr. Sheppard and his officials thereon.

Respecting Paragraph 101—Charitable Donations; the Committee agreed that information bulletins concerning Registered Canadian Charitable Organizations should be issued to charitable institutions in Canada in 1967.

The Committee ordered that a Department of National Revenue (Taxation Division) Information Bulletin No. 34 dated November 23, 1966—Registered

Canadian Charitable Organizations, be attached to today's Minutes of Proceedings and Evidence (*See Appendix "19"*).

The Committee ordered that the Accounts Receivable breakdown on Pages 116-117 of the Auditor General's Report 1965 be continued.

Discussion ensued respecting the accounts of the Parliamentary Restaurant. It was agreed to wait until a full meeting of the Committee to consider this question.

It was agreed that there would be an *in camera* meeting of the sub-committee on Agenda and Procedure respecting the drafting of Reports to the House.

At 11.43 a.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, November 29, 1966.

The CHAIRMAN: Gentlemen, I see a quorum. I would like to read into the record a short letter that you requested. It is from Mr. G. W. Hunter, the Deputy Minister of Defence Production.

Dear Mr. Hales:

On November 1, 1966 when I was before the Standing Committee on Public Accounts, I was asked to file with the Committee the legal decision concerning the DDP Revolving Fund. I am attaching hereto a submission made by DDP on March 4, 1965, together with the legal opinion from the Deputy Attorney General dated April 13, 1965.

At the same meeting, Mr. J. R. Brisson, President of Canadian Arsenals Limited, was asked to produce the actual values of contracts let to the Valleyfield Plant since the date of the sale of that Plant to Canadian Industries Limited. The value of contracts placed in the fiscal year 1965-66 was \$241,200, and for the fiscal year 1966-67, up to November 1, 1966, was \$445,000.

Yours faithfully,

G. W. Hunter,
Deputy Minister.

I would ask your permission to attach the Department of Defence Production submission concerning the Department of Defence revolving fund and the legal opinion from the Deputy Attorney General as an appendix to the Minutes of Proceedings and Evidence. Is it agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, this is our last meeting of the Public Accounts Committee for this session. We are pleased to have with us this morning Mr. Sheppard and his staff from the Taxation Division of the Department of National Revenue. I would first like to congratulate Mr. Sheppard on his recent appointment as Deputy Minister of the department, succeeding Mr. Gear McEntyre. We wish him well in his new position. Mr. Sheppard, would you like to introduce your staff and then we will proceed.

Mr. D. H. SHEPPARD (*Deputy Minister, Taxation Division, Department of National Revenue*): Mr. MacLachy is on my immediate left, he is the director of our legal branch. Mr. Delavignette is the new Registrar-Examiner of Charitable Organizations. Mr. Barclay is superintendent in our administration branch.

The CHAIRMAN: Thank you, sir. Gentlemen, we are at page 64.

Mr. Henderson, will you introduce the subject matter?

101. *Charitable donations.* Section 27(1)(a) of the Income Tax Act, R.S., c. 148, provides that a taxpayer may deduct from net income the aggregate of gifts to charitable organizations in Canada up to 10% of net income. In the taxation year 1963—the last year for which statistics are available—charitable donations claimed as deductions amounted to \$308,431,000 in the case of individuals and \$41,700,000 in the case of corporations.

The word “charitable” is not defined in the Act and the Department in administering this section relies on Common Law which recognizes “charity” as comprising four principal activities: the relief of poverty, the advancement of education, the advancement of religion, and other activities beneficial to the community not falling under any of the preceding heads.

Many charities are well known to the taxing authorities and receipts issued for donations are generally accepted without question when attached to a taxpayer's return in support of a deduction for a donation he has made to a charitable organization. There is no requirement that charitable organizations be registered with the Department but in practice provision is made for formal approval which an organization may seek if it so wishes. Such approval is, of course, a necessity in the case of organizations which are not known and whose receipts might not be accepted by the taxing authorities in the absence of prior approval. The Department maintains, for its own use, a list of approved charitable organizations which currently includes over 1,200 names.

A perusal of this list quickly gives the impression that all of the organizations exist for worthy purposes, but it is not so readily apparent that all are concerned with poverty, education, religion or purposes beneficial to the community. For obvious reasons assistance given personally by a taxpayer to a poor family for the education of one of its children cannot be recognized as charity for the purposes of the Income Tax Act. However, an equivalent amount given by the same individual to a professional association to which he may belong to be used to recognize scholastic achievement by a student of the association is regarded as a charitable donation.

Also included on the list are organizations which are set up in Canada for the collection of funds to be used for worthy purposes in other countries. It might be questionable whether these should be regarded as “charitable organizations in Canada” within the meaning of section 27(1)(a) of the Act.

Charitable organizations which are incorporated must file annual income tax returns including financial statements, but once any organization has been recognized the Department exercises no regulatory control, nor is there any other authority in Canada which exercises control such as requiring the filing of annual returns accompanied by financial statements giving a report of charitable activities. In the absence of such a control it is possible for organizations to change their character or even to cease

serving any useful purposes, yet their receipts might continue to be accepted as evidence of genuine donations to bona fide charitable organizations.

Consideration should be given to the setting up of adequate controls over the many charitable organizations now recognized.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Paragraph 101 dealing with charitable donations, Mr. Chairman, appeared in my report last year because it is my responsibility to ascertain that the rules and procedures in effect are sufficient to protect the Crown's revenues.

The audit note outlines problems in determining what are charitable organizations within the meaning of the Income Tax Act and checking on deductions claimed by taxpayers. We suggested in this note that consideration be given to the setting up of adequate controls over the numerous charitable organizations recognized by the Income Tax Division. I am pleased to tell you today that we have seen action on this matter since the note appeared in my 1965 report which, you will recall, was tabled last February. First of all, in his budget speech of March 29th, the Minister of Finance proposed a resolution to deal with the several problems outlined in this audit note, and to make them effective with the 1967 taxation year. This was followed by an Order in Council issued on October 27 last amending the Income Tax Regulations by establishing new rules for registered Canadian charitable organizations, and finally just last week detailed regulations were announced by the Minister of National Revenue, which you probably read in the press, spelling out the precise procedure to be followed by registered Canadian charitable organizations with effect from January 1, 1967.

This represents a case, Mr. Chairman, on which action has been taken before members of your committee have had an opportunity to consider the audit note.

The CHAIRMAN: This is the way we like to see it work. Mr. Sheppard, I do not suppose there is too much to be said on this unless you would like to give the committee a brief outline of how the new system is going to work. I am sure the members will have a question or two to ask.

Mr. TUCKER: Is Mr. Sheppard responsible for the quick action?

The CHAIRMAN: We will give him the credit as the new Deputy. The Public Accounts Committee would like to take some credit too.

Mr. FORBES: I do not know whether or not he is very smart. I had something to do with him a while ago and he did not give me a favourable decision.

Mr. SHEPPARD: I think Parliament should be given credit because they have enacted the legislation which makes some of these controls possible.

I think the Auditor General has given a fair outline of the steps that have been taken to regularize the procedure regarding charitable organizations. I think some of the criticisms that have been made are probably well founded. We are very glad to see the changes that have been made so the matter can be brought under control.

First of all, we have had regulations passed, as has been stated, and the information bulletin was sent out just about the same time as the Minister of National Revenue had his press conference last week. So these matters are now under control. I have a copy of the information bulletin here which is quite voluminous. Do you wish me to table it?

The CHAIRMAN: What is your wish, gentlemen? I think it might be well to table it? Is it agreed that the information bulletin be made an appendix?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Are there any questions by Committee members concerning the new approach to charitable donations?

You said that you sent out these instructions. What mailing list would you use for that, and how would you cover all these people?

Mr. SHEPPARD: I think Mr. Delavignette might give us some details.

Mr. J. DELAVIGNETTE (*Registrar-Examiner of Charitable Organizations, Taxation Division, Department of National Revenue*): They have not been mailed out to all the organizations but there has been quite a number of inquiries made by certain bodies. The hierarchy of the various church denominations are acquainted with the fact that every individual church or parish will have to register. Many other larger Canadian organizations are aware of it too. There has been quite a lot of publicity and a great deal of correspondence already. All those have been advised that the prescribed forms for making application for registration and the bulletin of information will be available in all the district taxation offices.

The CHAIRMAN: Just one more question. For instance, would the Kiwanis Club in my community get this material?

Mr. DELAVIGNETTE: No, not a Kiwanis Club. This material would not be mailed to them unless they made some inquiries.

The CHAIRMAN: It would be the same with all service clubs. Are service clubs considered charitable organizations?

Mr. DELAVIGNETTE: No, Mr. Chairman. Service clubs and fraternal organizations as such are not recognized as charitable organizations. However, they can set up a trust to handle a charitable project.

Mr. TUCKER: Are donations given by members to these clubs deductible for income tax?

Mr. DELAVIGNETTE: Not directly to the club, sir, but to trust funds set up for a charitable purpose.

Mr. TUCKER: What is the amount that an individual can claim without receipts on his income tax return?

Mr. DELAVIGNETTE: He gets a \$100 standard deduction.

Mr. TUCKER: And over that he has to produce receipts—

Mr. DELAVIGNETTE: Yes.

Mr. TUCKER: —showing that he has made a contribution to some charitable organization.

Mr. DELAVIGNETTE: Yes.

Mr. LEBLANC: Will the new rules apply only as of January 1, 1967?

Mr. DELAVIGNETTE: That is the way it reads.

Mr. LEBLANC: So for 1966 the same old rules still apply?

An hon. MEMBER: The same old gang.

Mr. LEBLANC: So I suppose that this year you are still not going to allow some of the receipts, as was the case in previous years.

Mr. SHEPPARD: We hope not too many. There has been a great deal of co-operation with the various organizations. A number of them already have set up the machinery and the system whereby they could have better control over receipts, having regard to their problems in the past and the legislation which has been brought in. So we do not expect to have nearly as much difficulty as we have had in other years.

Mr. LEBLANC: This problem was raised quite often in the House. People would send in two receipts and the income tax authorities would take it upon themselves to accept one receipt and reject the other. I think that was a very bad policy.

Mr. SHEPPARD: If an organization throughout the whole of 1966 has not maintained a record of any donations received, gives a receipt, and we have reason to believe that the total receipts given are in excess of the amount that was received then we probably would have no choice but to make an adjustment, as in other years. However, we do not expect there will be nearly as much trouble this year.

Mr. LEBLANC: I know in some cases there were two receipts from two different parishes but this was because the taxpayer was in two parishes. For instance, I am in Montreal but I have another house in the country, which, of course, is another parish. I certainly contribute to the two parishes, and I get receipts from both. I do not see why in that case you would not allow one receipt because it was quite legitimate. They accepted the other one without any inquiries. The assessor took too strong a view, in my opinion.

Mr. TUCKER: You mean to say you would get only one receipt?

Mr. LEBLANC: No; I would get two receipts from two parishes.

Mr. TUCKER: Yes, but was that not perfectly in order?

Mr. LEBLANC: Oh yes.

The CHAIRMAN: That is the question he is directing to Sheppard.

Mr. SHEPPARD: There is no question that receipts for gifts given to two different organizations may be quite valid. But the problem has been that in some cases we have found that people who could only get a receipt for so much money in one place would go to another and get another receipt. We had reason to believe that in some of those cases the receipts were not valid so we disallowed the receipt from the distant parish. However, in those cases where information was given subsequently that the gifts actually had been given we did make adjustments.

Mr. LEFEBVRE: I have a supplementary question. Mr. Sheppard, there are people, not only Members of Parliament, who might give to several parishes during a year. There are those in business who may give to 15 or 20 different parishes or organizations throughout a county. I do not think there is a valid reason for disallowing receipts from distant parishes. It may well be that every member here gives to 20 or 25 parishes during a year. If we are solicited gen-

erally we give. So if receipts are issued from 20 or 25 different parishes I believe that in this case and also in the case of people who are in business throughout a region, they should be allowed.

Mr. SHEPPARD: If the gifts were actually made to a variety of parishes they would be allowed.

The CHAIRMAN: Well, Mr. Leblanc, what is the answer to your problem then?

Mr. LEBLANC: My receipts were accepted. However, I am a chartered accountant and I have looked at a few income tax returns. I know many taxpayers whose receipts were disallowed. In these cases you have to make out a "Notice of Objection" and because of all the red tape the taxpayer, in many instances, says he will not do anything about it. I do not believe it was a very good stand for the department to take at that time. Once they had an authentic official receipt, even if they had four or five, I believe they should have been accepted. If some people were issuing receipts that they should not have issued they should have checked upon them and not the taxpayer who got the receipts.

The CHAIRMAN: Wait until we give Mr. Sheppard a chance to answer this question. I think the committee wants to know what the department's procedure was or is going to be.

Mr. SHEPPARD: We only disallowed the receipts for parishes that were at a distance from where the person normally attends if we had reason to believe that one was not valid. I am not saying we were right in every case but that was the principle under which we operated.

Mr. PRITTIE: Would you do this where in the case of the person issuing the receipt it had been proven in the past that he had issued more receipts than money received. Would it be in such cases that you would begin to wonder about the validity of the receipts in the hands of the individual taxpayer?

Mr. SHEPPARD: I think that the only cases we challenged receipts in the way I have mentioned is where we had information that would indicate the total receipts issued were greatly in excess of the amount of money received.

Mr. PRITTIE: There have been a number of abuses, and this is well known.

Mr. SHEPPARD: That is right.

Mr. TARDIF: Some of my questions have been answered. Mr. Sheppard said that if there is a receipt from two parishes—and, incidentally, I cannot afford to pay to two parishes so it does not apply to me—they assume that one is wrong and they put the onus on the taxpayer to prove that one is not wrong. I do not think that the taxation authorities should assume these things; I think that there should be a firm and recognized rule. I gathered from what you said that if these are two parishes and one is distant you assume that one is wrong so, therefore, you disallow it.

Mr. SHEPPARD: I do not think I said that.

Mr. FLEMMING: He said if they had reason to doubt the validity.

Mr. TARDIF: Well, after you had assumed you said that if you had reason to doubt the validity you would not allow the receipt. Whether you use that term or another term it is exactly the same thing; it is an assumption. I do not think the

tax department should say: "This receipt is not in order because we think it is not in order." They should say: "It is not in order because..." and they should give the reason that it is not in order. They should not put the onus on the taxpayers. Mr. Leblanc said many taxpayers will decide it is not worthwhile for \$30 or \$40 to object or to go to the trouble of getting an accountant whose services will cost a lot more than \$30. I think in these cases taxes are being collected on assumption instead of proof.

The CHAIRMAN: Mr. Sheppard, would it be a fact that under the new system this would be taken care of?

Mr. SHEPPARD: Yes.

Mr. TARDIF: So you will not sin anymore.

Mr. TUCKER: Is the \$100 deducted automatically?

Mr. SHEPPARD: The \$100 is a statutory allowance which you can claim in lieu of claiming charitable donations and medical expenses.

Mr. TUCKER: If in addition to the \$100 a person has a receipt for \$50, can he then claim \$150?

Mr. SHEPPARD: No.

Mr. TUCKER: He cannot?

Mr. Sheppard: He claims either on the basis of his receipts for charitable donations or the \$100.

Mr. TUCKER: He would claim \$150 and show how that amount was arrived at, if he actually gave \$150?

Mr. SHEPPARD: If he has receipts for \$150 he claims \$150.

Mr. TUCKER: Does the 10 per cent ceiling still apply?

Mr. SHEPPARD: Yes.

Mr. TUCKER: Thank you.

(Translation)

Mr. THOMAS (*Maisonneuve-Rosemount*): Mr. Chairman, the fact that we now have license numbers—I note that our parish has a license number—does not make things a little too restricted. Is it not too much to say that a charitable donation in one parish is acceptable, and in another one it is not? I would like also to know what you mean by distant parish, how many miles away, how remote must it be?

Mr. SHEPPARD: On the question of numbers, I presume you are referring to the new registration system whereby each parish receives a number. If they have a registration number they are recognized as a charitable organization, and the receipts that bear those numbers will be accepted, beginning in 1967, unless we find that they have done something contrary to the regulations under which the organization would not be recognized in the future—and then under those circumstances notification is given and the matter has to be recorded in the *Canada Gazette*.

On the question of parishes at a distance, we were trying to say that we had observed in some cases that because people were not content with getting one

receipt on an arbitrary basis for a specified amount of money, they would go to another parish and get another receipt, and where we had reason to believe that this was not valid then we did question one of the receipts.

(Translation)

Mr. TARDIF: Did you keep that receipt or did you eliminate that completely?

(English)

Mr. SHEPPARD: I cannot say exactly what we did in these cases. We would disallow completely the receipt that had been obtained from a parish other than the place where the man normally attended, if we had reason to believe it was not valid.

(Translation)

Mr. TARDIF: Even if an individual had, for instance, a summer house in a parish which is 40 or 50 miles from his home, and it was necessary to make donations to both parishes, then the receipt which he brought from his summer residence was not accepted where he just resided two or three months?

(English)

Mr. SHEPPARD: You cannot regard this question of distance. It is really an attempt to try and disallow the receipts that were considered not valid. If they complained about something that was considered incorrect. We would adjust it without going to appeal.

Mr. BALDWIN: Mr. Chairman, I notice the first paragraph of the Auditor General's Report refers to charitable donations claimed as deductions, and refers to a total of approximately \$350 million, covering both corporations and individuals. I would like to ask the Deputy Minister about the word "claimed". Does this mean claimed and allowed, or were these just claims, part of which were rejected?

Mr. SHEPPARD: I believe that those statistics were made up on the basis of the initial assessment, which would mean claimed and allowed—although some of them could have been adjusted later, and these would not be recorded in the statistics.

Mr. BALDWIN: Well, we will leave it at approximately \$350 million. Would you be in a position to indicate, in your opinion, in percentage terms what amount would have been claimed and not allowed?

Mr. SHEPPARD: I have not the figures with me. We could get them if you want them.

Mr. BALDWIN: It would be interesting to have them. I suppose one of the benefits flowing from the present regulations would be the elimination of a lot of internal work, examinations, testing, auditing, and the checking in which the department is involved. I suppose in terms of man-hours there is a considerable amount of time applied to this.

Mr. SHEPPARD: That is right. Mr. Chairman, I am not sure that we have those statistics because we would have to go to the district offices to see if they kept a record.

Mr. BALDWIN: I do not want you to go to an unnecessary amount of trouble. If they can be obtained relatively easily I would like to have them just to note the percentage.

Mr. SHEPPARD: We will see if they can be obtained readily.

(Translation)

Mr. LEBLANC: Of course the new regulations will apply as from 1 January, 1967. But at the present time what worries me a bit is that in 1966, I am afraid that the taxation people will still be applying their own judgment as regards to charitable receipts that will be filed for that year, just as they did for the years 1965, 64, and 63. That is why I have asked Mr. Sheppard whether there is some possibility, at least for 1966, that those who hold receipts and who are in good faith can have these accepted and that the taxation employees will not decide for themselves whether they accept or reject something without conducting any inquiry whatsoever because the new regulation will only apply for the taxation year 1967?

(English)

Mr. SHEPPARD: Mr. Chairman, I could say that during the last year we have had a great deal of co-operation from the churches in trying to bring some order to this matter. A large number of churches have agreed to adopt the envelope system. We are working out an arrangement with the churches that have done that. Based on what was given when they commenced the envelope system, we would permit them to assume a certain amount for the portion of the year for which envelopes were not used. We expect there will be no trouble whatever in respect of those churches where this has been done.

Mr. FORBES: I have a supplementary question. Is a Member of Parliament who donates to a number of different parishes allowed to claim any exemptions above the \$6,000 that he is allowed, including indemnities?

Mr. SHEPPARD: The charitable donation allowance is a maximum of 10 per cent of your income.

Mr. PRITTE: Mr. Chairman I have a comment to make on the point raised by Mr. Leblanc. I give to a church in Vancouver as well as to one in Ottawa; they are 2,500 miles apart and I have not experienced any problem.

Has the criteria for an organization to be certified for receiving charitable donations been changed under the new system starting January 1, 1967?

Mr. SHEPPARD: No. The definition of charitable organizations is a common law definition and it has not been changed, except in certain amendments to the law itself. My comment has reference to what is meant by a charitable organization but the act specifies it has to be a charitable organization in Canada. They are now called registered Canadian charitable organizations. But, in addition to that, there are three amendments put into section 27(1) (a) of the Income Tax Act, subparagraphs (iv), (v) and (vi) which grant allowances for gifts to the United Nations and agencies thereof, universities outside Canada prescribed to be universities, the student body of which would ordinarily include students from Canada and charitable organizations outside Canada to which Her Majesty in the right of Canada has made a gift during the taxpayer's taxation year or the

12 months immediately preceding that taxation year. So those amendments have to do with extending the definition as to the allowances for gifts to organizations outside Canada.

Mr. PRITTIE: Will the task of determining which organizations are allowed to have numbers be completed before January 1 or will the work go on after that date?

Mr. SHEPPARD: The new regulations affect only donations made in the year 1967 and those organizations which make a practice of giving a receipt at the end of the year would not be issuing a receipt until January or February of 1968, so they do not need to be registered right away. We are trying to urge the organizations, which will be issuing receipts day by day as they get the money, to register in advance before the end of the year. We hope we can do that.

Mr. PRITTIE: There is another matter I want to bring up which Mr. Sheppard and his officials may not be aware of. I am on the national executive of the Family Planning Federation of Canada. Various local organizations, family planning associations as they exist in Ottawa, Montreal, Toronto, Vancouver, Winnipeg and so on, have applied for exemption. Some of them have been foolish enough to write to the minister directly. They have had a negative reply, and the minister points to the section of the Criminal Code which prohibits the dissemination of birth control information and says because of that he will not allow an exemption. Others have written to district offices and have received approval. Other individuals have put in their receipts and had their receipts accepted. I am probably spoiling it for some but there seems to be a great inconsistency in the way this is handled. I know individuals have had their receipts approved. I know at least one local organization has been approved by a local office. However, those who wrote directly to the minister have not received approval.

The CHAIRMAN: Mr. Sheppard, I think the question would be: "Has a local taxation office the authority to rule whether or not it is exempt?"

Mr. SHEPPARD: There was no requirement in the law that a charitable organization had to be registered before. A number of them did register in order that the people who were giving the money would know that the receipts would be valid. They wanted to register so they could obtain approval and could advertise that they had obtained approval. The vast majority of the organizations did not seek approval.

For instance, the Auditor General's Report mentions a figure of about 1200 names on the list. There are probably 40,000 different places that issue receipts. Each district office has the authority to allow or disallow a donation, based on their local knowledge. It could be that they were allowing some things that should not have been allowed. However, they will all have to register centrally and obtain a number before the receipts will be accepted, beginning in 1967.

Mr. BALDWIN: I am not asking for free legal advice although I may be offering some. If the group which Mr. Prittie mentioned takes the position that their objective was not the dissemination of information but the taking of action to try and persuade Parliament, through its members, to make some refinements in the law, could that then be construed in any sense of the word as being charitable?

Mr. SHEPPARD: I think we would admit that any organization which is advocating a change in the law would not be—

Mr. BALDWIN: The end result being for charitable purposes?

Mr. TARDIF: What charity is there in that?

Mr. BALDWIN: Have I got you wrong, Mr. Prittie?

Mr. PRITTIE: No, they have been using the money to establish clinics, run information services and that sort of thing. They do what was mentioned too but the purpose of the money would be to establish new clinics and information services.

Mr. FLEMMING: Would he recognize charitable organizations which are presently operating or would they have to apply to Ottawa for their registration in order to comply with the 1967 requirement or do they apply to the district office?

Mr. SHEPPARD: They all have to apply to the Registrar-Examiner at Ottawa.

The CHAIRMAN: It seems to be a matter of the information getting out to the charitable organizations. I am not too sure whether or not the department is sending this information bulletin to all charitable organizations. I see 1200 names on this list. Have those 1200 organizations received this information bulletin? If not, how do you expect the charitable organizations to follow the new procedure for 1967 if you do not inform them? Why would not your department mail this bulletin out to those 1200 on the list. The answer is you have not sent this out?

Mr. DELAVIGNETTE: They have been told the bulletin is available at the district office.

The CHAIRMAN: I think this is one of the things that is wrong with the Taxation Division. You do not keep the people informed; then they make a mistake, and are penalized for making that mistake. I think the department's responsibility, first of all, is to inform the taxpayer and then if he does not live up to the information that you have provided him with you are in a position to assess him or do as you like. You are telling the committee that you have not even sent these circulars out. Is that a fact?

Mr. SHEPPARD: No, we have not sent them. If we had they would have gone only to the 1200 names we have on the list and there are 40,000 altogether. We have to rely on the newspaper publicity and various organizations with which we deal to disseminate the information themselves to some extent.

Mr. FLEMMING: Would Mr. Sheppard not agree that it would be a good thing to send the forms to those who are approved and to say that as of January 1 you want them to do certain things. Then, of course, you would advertise for the benefit of others. Surely it would be the thing to do for the ones that are approved and already on the list.

Mr. SHEPPARD: I am told there might be a problem of addresses for a great number of these names because they go back for 13 years and some may no longer be in existence.

The CHAIRMAN: Do you not keep an up to date mailing list in the department of all those names and addresses of charitable organizations?

Mr. SHEPPARD: No. We have a list of those who were approved and these stayed on the list unless for some reason they were struck off. However, we do not know whether they are all active organizations today.

The CHAIRMAN: It would not be much of a problem to get a list of the names of charitable organizations that you are accepting.

Mr. SHEPPARD: We have a list of the ones that are accepted, yes.

The CHAIRMAN: And the organizations on that list have not received your information bulletin?

Mr. SHEPPARD: Not directly from us, no.

The CHAIRMAN: Well, may I draw a parallel. If a business concern, with a list of customers, institutes a new credit arrangement or something like that, the first thing they do is send out an information bulletin to all their customers stating their proposed changes. I would think that you and your department, as collectors of taxes, should follow the same procedure. Would you agree?

Mr. SHEPPARD: Mr. Chairman, it has been quite a difficult job to get all the rules and regulations for this together in the time we have had, but we will certainly take into account what you have said and see if we cannot get this list out.

Mr. PRITTIE: Mr. Chairman, you are all aware of the government's general practice. For example, when there is a change in the Income Tax Act I do not imagine that every business organization automatically gets a notification from the government that there is a change in the Income Tax Act, they rely upon the press or the customs tariff. To whom do you send this material. For example, the taxpayer does not get a notice from the government when there is a change in the Income Tax Act. The only time he knows is when he gets his form at the end of the year. How could it be otherwise?

Mr. FORBES: Mr. Chairman, it seems to me that every time you go to make out your income tax form and you pick up the form to fill out you get what is called an income tax guide in which I presume these regulations will be included. Most people understand this guide. All the information you are now talking about could be included in a guide. Everybody gets one with his income tax form.

The CHAIRMAN: But not charitable organizations. This is a new procedure for charitable organizations effective January 1, 1967. They have a very readable and understandable information bulletin here but it is not being sent out to the charitable organizations.

Mr. FORBES: I say they should pick up a guide too. I do not want the government to spend a lot more money, thereby increasing my income tax, by sending these forms out to people.

Mr. PRITTIE: Mr. Chairman, there is a practical aspect to this. For example, the national headquarters of each of the religious denominations in the country is receiving this information. I believe the United Church and the Catholic Church are. You expect that the national offices of these denominations will inform all their branches throughout the country. If such is the case, I believe this would cover probably 80 per cent of the problem. Is that the way you are doing it?

Mr. SHEPPARD: Yes, Mr. Chairman. The main concern at this time was to see that the information was disseminated to everyone in Canada. Certainly 39,000 out of the 40,000 are not on our list anyway, so we would have to rely on the methods which have been mentioned, going to the headquarters of the various organizations and the newspaper publicity to help us in disseminating this information.

Mr. LEBLANC: What about societies such as the Red Feather and la fédération des Oeuvres catholique? I am sure you must have those addresses. They should receive this bulletin.

Mr. DELAVIGNETTE: They already know.

Mr. LEBLANC: They know? How do they know? How do they come to know the new rules.

Mr. DELAVIGNETTE: They get in touch with me and I advise them.

Mr. LEBLANC: We do not give them that service? They have to call you to get the rules?

Mr. DELAVIGNETTE: When they become aware of the legislation.

The CHAIRMAN: And if they do not apply then what happens?

Mr. LEBLANC: They will not be recognized and that is that. I think that more publicity should be given to the new rules. The department should find a method of some sort to publicize the new rules so that all charitable organizations will know about them. Even the service clubs might be entitled to registration if they knew how to go about it. It is easy to get the addresses of the Lions Clubs, the Kiwanis Club, the Richelieu and so on. It is no problem to send them the new rules.

The CHAIRMAN: Would it not facilitate the operation and mechanics of the Taxation Division if all this information was adhered to and these charitable organizations got a number and everything was in order?

Mr. SHEPPARD: Yes. We believe that this new legislation and the regulations that have been made in connection with it will facilitate the work to a great extent. Before we could not tell whether a receipt was valid or not other than by looking at the name. If it looked like a charitable organization in some cases we had to allow it. Now they will have to have an official registration number which we can check and in this way we should be able to tell whether the receipts are valid. We are perfectly aware of the need for disseminating this information and so is my minister. One reason for making the announcement which he did at a recent press conference when he gave out the information bulletin, was so the press could disseminate this information throughout Canada. We will keep in touch with it and watch it as we go along.

Mr. PRITTIE: Will this information appear in journals that go to chartered accountants, certified general accountants and so on? I imagine it could be done because they have their own publications.

Mr. SHEPPARD: All accounting organizations get all our information bulletins regularly. Most of the industrial concerns have their own headquarters, some charities have headquarters and they disseminate the information themselves.

The CHAIRMAN: Gentlemen, we must not spend any more time on this. I would like to assess the feeling of the committee on this matter. Would I be right in assuming that the committee feels this information material should be sent out by the department to the charitable organizations so they know the new rules and procedures starting January 1, 1967? Is that agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Sheppard you have the feeling of the committee on that.

Mr. SHEPPARD: Thank you.

The CHAIRMAN: Paragraph 102 is next.

102. *Remission of income tax on per diem allowances.* Per diem allowances ranging from \$50 to \$60 were granted to each of the members of the Board of Trustees of the Maritime Transportation Unions. The income tax normally payable on these allowances was remitted by the Governor in Council under authority of section 22 of the Financial Administration Act.

Each of the departmental submissions to the Governor in Council and each of the remitting Orders in Council referred to the per diem allowances as remuneration and went on to state that any remuneration payable to the members of the Board of Trustees of the Maritime Transportation Unions would have been tax-exempt if the appointments had been made under the Inquiries Act, R.S., c.154. In actual fact, section 5(1) (b) of the Income Tax Act grants to a person who was appointed or whose services were engaged pursuant to the Inquiries Act exemption from tax of "travelling of personal or living expense allowances" paid under authority of the Treasury Board. In other words, it is expense allowances paid to persons appointed under the Inquiries Act and not remuneration allowances to those persons which are exempt from income tax.

This mis-statement of fact in the submissions and the resulting Orders in Council in no way affects the validity of the remissions granted and the remissions themselves are regarded as being in order.

It is a matter of concern, however, when the Governor in Council is provided with incorrect information which may have had a bearing on the decision to grant the remissions requested by the Department of Labour. In the absence of amending Orders in Council which would indicate that the Governor in Council had been informed of the erroneous information provided, the matter is drawn to attention.

Mr. HENDERSON: Mr. Chairman, this probably will not take much of the committee's time. The point may appear to you as rather a technical one. I might say at the outset that Mr. Sheppard's predecessor was of assistance to me in trying to solve this. The note explains misstatements of fact contained in departmental submissions made to the Governor in Council which found their way and still remain in the orders in council in question. They do not affect the validity of the remissions which were made under section 22 of the Financial Administration Act, and I do not question them.

However, it has been traditional that when the audit office encounters cases in the course of its work where the Governor in Council has, in fact, been

provided with incorrect information in arriving at his decisions, we advise those concerned and follow through to see that an amending order in council is in fact issued. It is because this was not done in this case that this note appears in my report.

I would like an expression of opinion, Mr. Chairman, from the committee as to whether or not they feel this traditional practice is a desirable one. If not, I will not concern myself with pressing such cases in the future. It seemed to us, because of the importance of an order in council, that if it has been based on misstatements of facts that the order in council should be corrected.

In this particular case, I drew it first to the attention of the Deputy Minister of Taxation because of its nature and he explained that the submission had originated with the Minister of Labour. I then wrote to the Minister of Labour to point out the error. He replied on June 17th and said that he was confident that the Governor in Council was in fact aware of the situation. I then wrote to the Clerk of the Privy Council on August 6, who was good enough to run the matter to earth and in fact proposed changes in wordings for future remission orders. He submitted an example to me of what he proposed to say and we exchanged views on that. He went on to say that on the advice of his legal advisers he saw no need for amending the orders in council issued in this case. That is why I draw the matter to your attention in my report to the House.

As you see, the case is fairly clear. In the first paragraph it refers to each of the remitting orders in council; and it refers to the per diem allowances paid to each of the members of the board of trustees as remuneration, and goes on to state that any remuneration payable to the members of the board of trustees of the Maritime Transportation Unions would have been tax exempt if the appointments had been made under the Inquiries Act. The Income Tax Act grants to a person appointed pursuant to the Inquiries Act exemption from tax on travelling, personal or living expense allowances paid under authority of the Treasury Board. In other words, it is expense allowances paid to persons appointed under the Inquiries Act and not remuneration allowances paid to those persons which are exempt from income tax. I do not know whether Mr. Sheppard would care to comment on this or whether in fact he is familiar with it? It might be unfair to invite his comment. I hope I have made the point clear to members of the committee.

The CHAIRMAN: We will call for questions from the committee first and then if Mr. Sheppard wishes to say anything, he may do so. There seems to be agreement by the committee on your suggestions, Mr. Henderson.

Mr. BALDWIN: What is the amount involved?

Mr. HENDERSON: The amount involved is not a large one. It relates to per diem allowances paid to the members at the rates indicated in the first paragraph of the note. Perhaps Mr. Murphy could give us the amount; it is not large. It is the principle I am concerned with. Do the members have any views as to my responsibilities for reporting cases like this to the House?

Mr. BALDWIN: I would like to say that I have expressed the opinion—and I think the committee also has—that section 22 of the Financial Administration Act is abused all too often and consequently when you find abuse coupled with an incorrect statement of fact I would think that the Auditor General would have a mandate to bring it to our attention.

The CHAIRMAN: What is the amount?

Mr. HENDERSON: I will ask Mr. Murphy to read the figures out. It is not necessary to mention the names.

Mr. E. W. MURPHY (*Assistant Audit Director, Auditor General's Office*): There were three instances. The living allowance in the first one was \$10,920; the second one \$8,855, and in the third case \$13,860. This was the living allowance portion. In addition to that there was travelling expense.

Mr. BALDWIN: It is the element of remuneration?

Mr. HENDERSON: That is right. It is a matter of having the record straight and the facts properly recited in the order in council. I should go on to mention that in a number of cases where we bring these instances to attention, amending orders in council do issue. Would that not be correct, Mr. Laroche, that in some of the instances we have had, you have seen them amended?

Mr. PRITTIE: Do you get your own legal opinion, Mr. Henderson, after you have had a letter from the department saying that they have had an opinion?

Mr. HENDERSON: If I consider it necessary to obtain a legal opinion, I secure it from my legal advisers, Mr. Prittie. I did not consider it necessary in this case, it being a traditional practice as I have explained.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now gentlemen, we will move on to page 116, accounts receivable of the taxation division. I am sure you will have lots of question to ask on this paragraph. Before we proceed to page 116, Mr. Sheppard, would you mail to each member of our committee this information bulletin concerning charitable donations registration under the new set-up.

Mr. SHEPPARD: I will be glad to do that. It may not be exactly in that form but it will give you the information you wish, Mr. Chairman.

The CHAIRMAN: As long as it is in a form that Mr. Forbes and I can understand, it will be acceptable.

169. *Accounts receivable—Department of National Revenue*. It will be noted from the table in paragraph 168 that the accounts due to the Department of National Revenue at the close of the year accounted for \$235 million of the overall total of \$265 million owing to the Crown.

With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department of National Revenue, analyses have been prepared showing the nature and amounts of the unpaid accounts.

CUSTOMS AND EXCISE DIVISION.—The following is a summary of the accounts receivable of this Division at March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Collectable—		
Excise tax	\$ 11,381,000	\$ 9,266,000
Customs seizures	531,000	197,000
Duties and taxes on importations	1,227,000	134,000
Investigations	197,000	22,000
Salary overpayments	2,000	1,000
	<u>13,338,000</u>	<u>9,620,000</u>
Uncollectable—		
Excise tax	1,022,000	591,000
Customs seizures	47,000	29,000
Duties and taxes on importations	166,000	165,000
Investigations	3,000	—
Salary overpayments	—	2,000
Sundry	4,000	4,000
	<u>1,242,000</u>	<u>791,000</u>
	<u>\$ 14,580,000</u>	<u>\$ 10,411,000</u>

In our 1964 Report we stated that the figures for that year did not include (a) certain sales tax assessments, (b) customs amending entries unpaid for less than six months, and (c) inactive accounts of the Investigations Branch. At March 31, 1965 these amounts have been included and account in large measure for the increase of \$4.2 million shown in the above statement.

The Customs and Excise Division is preparing to extend the system of accounts receivable control accounts to include all amounts receivable by the Department. As yet it is not possible to report upon the age of the accounts as the records are maintained at the district level and the information has not been provided to head office. We understand that this information will be available at head office next year.

During the year 156 items amounting to \$2,997 were written off with Executive approval under authority of section 23 of the Financial Administration Act.

TAXATION DIVISION—At March 31, 1965 the following amounts were recorded as accounts receivable:

Classification	No. of accounts	Amount
Income tax—		
Individuals	127,615	\$ 121,659,000
Corporations	5,551	66,907,000
Tax deductions and non-residents	14,241	11,065,000
Deferred tax	—	6,238,000
		205,869,000
Provincial income tax	—	42,000
Estate tax and succession duty	931	14,345,000
Sundry salary overpayments	—	3,000
		<u>\$ 220,259,000</u>

Only \$43 million, or 20% of the total of \$220 million shown above, consists of current collectable accounts. The remainder, \$177 million (114,196 accounts), had not been collected for the following reasons:

	March 31 1965	February 29 1964
1. Under appeal	\$ 75,102,000	\$ 67,778,000
There were 943 accounts under appeal at March 31, 1965, of which 310 were secured and 51 partially secured for the reason that no collection arrangements were possible. Section 51 of the Income Tax Act provides that "the taxpayer shall, within 30 days from the day of mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid, whether or not an objection to or appeal from the assessment is outstanding".		
2. Uncollectable	45,095,000	25,321,000
There were 19,801 uncollectable accounts at March 31, 1965. The increase of approximately \$20 million in uncollectable accounts, many of them in amounts over \$1,000, in the fiscal year 1964-65, results from a detailed systematic review of all accounts considered but not classified as uncollectable. Uncollectable amounts in excess of \$1,000 may be written off only with the sanction of Parliament and no such approval		

	March 31 1965	February 29 1964
for tax accounts has been sought by the Division since 1961-62. However, two items representing salary overpayments and amounting to \$12,070 were deleted under parliamentary authority by Department of Finance Vote 22d. Amounts of \$1,000 or less may be written off with Executive approval and 955 accounts amounting to \$299,827 were written off during the year.		
3. Current assessments	30,719,000	21,475,000
Accounts that were under 90 days old at March 31, 1965 number 76,384 and represent recent assessments and re-assessments, the bulk of which are not due until April 30, 1965.		
4. Duplicate assessments (estimated)	5,000,000	8,000,000
When deemed necessary, duplicate assessments are raised against individuals or corporations with which the originally assessed taxpayer may be associated or to which he might transfer assets.		
5. Temporarily uncollectable	14,951,000	—
There are 17,068 accounts in this category and they represent taxpayers who are unemployed, in jail, non-residents expected to return to Canada, operators of seasonal businesses and their employees, self-employed, receiving foreign income who at present are immune to our collection process, or who are unable to pay now but whose financial circumstances are likely to improve.		
6. Deferred tax	6,238,000	6,586,000
Deferred tax is collectable only on the death of a taxpayer, in accordance with section 13 of the Income War Tax Act, 1943-44, c. 14. This section gave the taxpayer the option of paying part of the 1942 tax in 1943 or thereafter at a discount or having his executors pay it from his estate.		
7. Provincial income tax	42,000	42,000
This amount, which is now regarded as uncollectable, represents the balance of		

	March 31 1965	February 29 1964
1939-40 provincial income tax arrears for Quebec and Ontario transferred to the Federal Government for collection under authority of the Dominion-Provincial Taxation Agreement Act 1942, c. 13.		
	<u>\$ 177,147,000</u>	<u>\$ 129,202,000</u>

In our opinion analyses or details of this nature relating to the larger groupings of debts due to the Crown, should be prepared by the departments responsible and made available to Parliament each year, through the medium of the Public Accounts or in the departmental annual reports.

Mr. HENDERSON: I would direct your attention, first to the table given in Paragraph 168 on Page 113 where a summary appears of the accounts receivable of all departments which are maintained by means of control accounts and those which are kept in memorandum form.

Department	Current year	Previous Years		Total
		Collectable	Uncollect- able	
Agriculture	\$ 440,218	\$ 849,636	\$ 21,258	\$ 1,311,112
Citizenship and Immigration ..	196,564	442,968	57,733	697,265
Defence Production	4,270	1,768	259,329	265,367
External Affairs	333,210	482,231	14,700	830,141
Finance	21,198	7,816	59,922	88,936
Justice	134,194	—	222	134,416
Labour	120	—	17,465	17,585
Unemployment Insurance				
Commission	54,798	127	469	55,394
Fund	4,873,774*	—	—	4,873,774
Mines and Technical Surveys ..	61,222	15,048	595	76,865
National Defence	4,514,477	2,502,328	88,650	7,105,455
National Health and Welfare ..	1,328,976	281,547	72,710	1,683,233
National Research Council	108,535	12,201	561	121,297
National Revenue—				
Customs and Excise Division.	13,338,855*	—	1,241,672*	14,580,527
Taxation Division	175,121,388*	—	45,137,672*	220,259,060
Northern Affairs and National				
Resources	187,342	412,228	4,075	603,645
Public Printing and Stationery	129,766	2,035	—	131,801
Public Works	627,415	484,939	10,959	1,123,313
Royal Canadian Mounted Police	385,548	5,913	2,003	393,464
Trade and Commerce	134,013	9,069	11,566	154,648
Transport	3,169,176	600,885	802	3,770,863
Veterans Affairs	3,784,409	2,038,803	369,096	6,192,308
Other departments	29,956	11,157	9,103	50,216
	<u>\$ 208,979,424</u>	<u>\$ 8,160,699</u>	<u>\$47,380,562</u>	<u>\$ 264,520,685</u>

I mention this because you will recall our previous discussions about this with Dr. Davidson, Mr. Bryce and Mr. Balls. In this table you will observe that the National Revenue Department is by far the largest and that the accounts receivable of the taxation division total in excess of \$220 million out of the \$264 million.

Turning to page 116, you will see this \$220 million is broken down in a small table by classification—that is to say, by nature—income tax from individuals, income tax from corporations and so on. The sentence immediately underneath that table explains that only \$43 million or 20 per cent of this figure of \$220 million consisted of current collectable accounts. The remaining total of \$177 million, consisting of over 114,000 accounts, had not been collected for a variety of reasons and the information given, running through page 117, summarizes the reasons they had not been collected. I would suggest that you may wish to discuss some of the cases in this breakdown with Mr. Sheppard and his associates.

The CHAIRMAN: Does this \$177 million owing to the Crown by taxpayers in Canada run back over a period of years? If so, how many years?

Mr. SHEPPARD: Mr. Chairman, except for those that we are authorized to write off it goes right back to the beginning of time.

The CHAIRMAN: You must have written off some?

Mr. SHEPPARD: Oh yes. If I could read a note that I have here on the uncollectable accounts maybe it would give you some idea of what we can do. At the present time, under section 23(1)(a) of the Financial Administration Act the Treasury Board may make regulations authorizing the deletion of accounts not exceeding \$100. Then the Taxation Division makes no assessments in all cases where the tax to be assessed or refund to be authorized is less than \$1. When assessed tax, penalty and interest have been reduced to less than \$5 these small balances are deleted from the ledgers on the basis that collection costs are not justified. Those accounts where balances outstanding are over \$5 and not more than \$1,000 are transferred to the uncollectable ledger section as they are encountered and identified as such. Once a year they are deleted from the ledgers altogether.

The special conditions mentioned are as follows and in some cases must have been unpaid for a minimum period. There is no time limit for taxpayers who have died and left no estate. There is a two year minimum period for taxpayers no longer resident in Canada. For taxpayers who cannot be located there is a two year minimum period. For taxpayers indigent there is a two year minimum period. There is no time limit for taxpayers of a defunct corporation without assets. Further expense to collect is not justified when the amount is small and there is no time limit. These procedures are provided in Section 23(1) of the Financial Administration Act.

I think the main point is that there has not been a procedure to write off the majority of accounts that are over \$1,000 except by a special process and we have not been using that. One modification is that if a taxpayer is bankrupt and discharged any debt is deleted under the Bankruptcy Act. Those are written off.

The CHAIRMAN: Are there any questions?

Mr. LEBLANC: If we could collect that \$220 million perhaps we would not need a baby budget this year. We would be well off.

Mr. PRITTIE: Does the Auditor General think the department should be doing anything it is not doing about there items?

Mr. HENDERSON: No. We believe that the records are well kept in respect of these accounts receivable. They are gone over at regular intervals. The criteria that Mr. Sheppard has enunciated is followed and the department, does its best to collect all incomes due to the Crown. I should like to say to the committee that this, I believe, is only the second year in which the breakdown of this information has, in fact, been made available. I express the hope, at the top of page 118 that the department itself might see fit to make this available, possibly in a more comprehensive form.

I do not know whether Mr. Sheppard has any plans for pursuing that or whether the committee would feel that a similar presentation should be continued in my future reports until he is in a position to take it over. Would you care to comment on that, Mr. Sheppard?

Mr. SHEPPARD: Mr. Chairman, we ourselves had not proposed to put it in our own annual report. Our report to Parliament has been a very small report attached to the general report of the Department of National Revenue, and it merely has regard to statistics of collections and matters of that kind. We do make an analysis of this information available to the Comptroller of the Treasury and he includes some analysis in the Public Accounts. That has been done on page 3112 of the Public Accounts for 1964-65. I am not sure whether it would not be appropriate to consider this analysis of the Comptroller of the Treasury as sufficient, and we would like an expression of view from the committee on that. I have a copy here.

The CHAIRMAN: Are there any figures available to show what the uncollectable taxes would be for the year ending 1964, for instance, and for other years?

Mr. HENDERSON: The figures here are comparative.

The CHAIRMAN: I am told that this \$177 millions goes back years and years.

Mr. HENDERSON: It was \$129 million in 1964. I think Mr. Sheppard raises a very good point, Mr. Chairman, in drawing attention to the statement made in the Public Accounts. I have a copy here. However it does not contain the information shown in my report on pages 116 and 117. In fact it is a paragraph headed "Taxation" and just gives total figures in four paragraphs. Perhaps you would feel that that is sufficient. If so I would be happy to drop this information from my report.

The CHAIRMAN: Would not the committee feel that this breakdown under these seven headings would be much clearer as is outlined in the Auditor General's Report than this other arrangement. This is very comprehensive and well laid out.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Then the question I asked is already answered in the Auditor General's report. Subtracting those two figures in a hurried calculation

would show that about \$64 million were outstanding at the end of March 1965. Is that right, Mr. Henderson?

Mr. HENDERSON: I am not very clear how you arrive at that.

The CHAIRMAN: I subtracted \$129 million from \$177 million which would indicate there was roughly \$64 million outstanding for one year.

Mr. LEBLANC: Do you mean at the beginning of 1965.

The CHAIRMAN: Yes.

Mr. HENDERSON: By process of deduction, Mr. Chairman, I do not think it is quite that figure.

The CHAIRMAN: Who can tell the committee what are the outstanding unpaid income taxes for the year 1964?

Mr. HENDERSON: Is the figure not \$47,945,000? Would that not be right, Mr. Sheppard? Have the uncollectables increased by \$47,945,000 between February 29, 1964 and March 31, 1965.

Mr. SHEPPARD: The uncollectables at March 31, 1965 are shown as \$45,095,000.

Mr. HENDERSON: You are perfectly right. I think the Chairman was referring to the seven categories on pages 116 and 117. The actual uncollectables are \$20 million higher.

Mr. SHEPPARD: \$20 million higher and then we have another category of \$14,951,000 temporary uncollectable that were not shown in the previous year. The increase of \$20 million uncollectable accounts you mention, Mr. Henderson was based on a more intensive review. It was more thorough review to separate those that were uncollectable in 1965 than had been done in 1964.

Mr. HENDERSON: The department co-operated with us excellently in preparing this breakdown under these headings. We sought to head it up in a way that would convey a maximum of information on the reasons and that I think is the real history of the various seven headings which you see on these two sheets.

Mr. LEBLANC: In paragraph 1, "Under appeal", you mentioned, Mr. Henderson that no collection arrangements were possible. Why were no collection arrangements possible for assessments under appeal? They are supposed to pay within 30 days.

Mr. SHEPPARD: I could comment on that.

Mr. HENDERSON: I think Mr. Sheppard should answer that question, Mr. Leblanc.

Mr. SHEPPARD: I have a more detailed statement here that I could give, if you wish. Briefly, what is involved is that the act provides that the amount is collectible and must be paid within 30 days whether or not it is under appeal. But based on the *Morch v. MNR* case, Canadian Tax Cases, 1949 at page 250 the court decided at that time that we could get a judgment to the extent of what they call a writ of extent but we could not get a writ of execution if there was any danger of loss while the matter was under dispute. Because of that case, we

have adopted the practice of obtaining security, and this has been covered in the legislation since then. We are allowed to obtain securities, and if a person gives adequate security then we do not force collection while the account is under appeal—unless we are satisfied that they can pay without causing any hardship, and then we do ask them to pay. I do not think the courts would permit us to take out a writ of execution and collect money that might cause the taxpayer hardship if the matter was under dispute.

Mr. FLEMMING: Mr. Sheppard, how would you explain the rate increase in the years 1964 and 1965? After all, it is nearly \$50 million.

Mr. SHEPPARD: Well, \$10 million of that is what we call current assessment. Quite frankly, I am not able to give a detailed explanation as to the reason for the other.

Mr. FLEMMING: Number 2 is the difference between \$25 million and \$45 million.

Mr. SHEPPARD: Yes. That is because of a detailed examination at the end of that year and we believe that the \$45 million is the correct amount for uncollectible accounts plus the number 5 item, which you see later on, which is temporary uncollectibles.

The CHAIRMAN: Gentlemen, when we are speaking of millions of dollars, believe me, this is not peanuts.

Mr. FLEMMING: That was my point; there was \$50 million difference in two years. I agree that Mr. Sheppard cannot carry this information around in his head, neither can his officials. I was wondering if he had any comments to make on the reasons for it. He has given us just part of it.

Mr. SHEPPARD: I think the main question is, what is the situation as of now. There is \$30 million which are current assessments and \$5 million in duplicate assessments, and we cannot collect the deferred taxes. Then there is the \$60 million for the two kinds of uncollectibles and the \$75 million are the ones under appeal.

Mr. FLEMMING: Why do you carry on your accounts what you regard as uncollectible?

Mr. SHEPPARD: Under the regulations, we have to get authority from the Crown to write them off. These are the ones that we have not had authority to write off up to now.

Mr. G. F. BARCLAY (*Superintendent of District Office Administration*): We are just about ready to write off \$25 or \$27 million.

Mr. SHEPPARD: Maybe Mr. Barclay could explain this new procedure we are hoping to adopt to eliminate a number of these from the records.

Mr. CHAIRMAN: Mr. Barclay do you care to comment?

Mr. BARCLAY: This large increase in uncollectibles is really a reflection of some of the work that we have done in the last three years in stepping up the level of skills in the collection field. We have found that the taxpaying public, or some parts of it, have been acquiring skills of evasion or avoidance of payments faster than we have been acquiring skills in the use of the tools of collection. We

have set about to reverse the trend. This means that in the last year especially we have been collecting accounts that, in past years, we would not have been able to collect because we have been devoting time to them. At the same time, if we apply the same skills to collecting them we find others that we can now assert definitely we cannot collect at all. So this jump in uncollectibles from the \$25 to \$45 million represents largely those to which we have applied these advanced skills and have proven that it is a dead end situation and impossible. We have been able to segregate the temporarily uncollectibles for our own information. At any rate, we say that there is no use in our bringing pressure to bear on our own people to collect something that cannot be collected now. Some of the debtors are alcoholics; they have enjoyed a very good income but there is no possibility of collecting now. They may be young men or they may be companies that have met with reverses and have not the assets now although they may have profits in the future.

With regard to the \$42,000 in provincial income tax, I might say we have just received the authority of the province of Quebec to write this off as uncollectible.

Mr. FORBES: Do you have a group of investigators throughout the country, in addition to those who make the assessment, inquiring into the financial circumstances of people?

Mr. BARCLAY: We find that, the skills of collection are quite comparable in the advanced cases to the skills of establishing the tax. Unfortunately, business people are international in their operations and tax laws are national. Interlocking companies around the world can not only dump profits in the countries where there is no tax but they can also dump assets there, so they can avoid payments no matter what the liability to Canada is. We are going to have to partly solve this problem?

Mr. PRITTIE: Have you not tax treaties with a number of countries that solves this problem partly?

Mr. BARCLAY: Not really. We have not the right to go to anybody else's courts; no other country opens its courts for collection of our taxes.

Mr. PRITTIE: But on the question of transfer of assets and evasion of tax, for example, is there not a Canada-United States agreement?

Mr. BARCLAY: Oh yes, we can get information from the United States, but if the assets are in the United States we cannot go to the United States courts and collect them. If the man is still here we can jail him, but we cannot cross the border. That is the popular thing now. Actually a person is foolish to suppress sales or add purchases when all he has to do is to have a Nassau corporation. That is something he cannot be jailed for.

The CHAIRMAN: Mr. Barclay, the largest amount under accounts receivable is in excess of \$21 million, under "Individuals". What would be the largest individual amount listed as uncollectible for any one person?

Mr. BARCLAY: The largest uncollectible in this \$45 million?

The CHAIRMAN: No, under "Individuals".

Mr. BARCLAY: Oh no, that is the total of the tax outstanding and, in some cases, that may be quite collectible.

The CHAIRMAN: But it is recorded as accounts receivable?

Mr. BARCLAY: es.

The CHAIRMAN: Would there be an individual in that list under "uncollectible"?

Mr. BARCLAY: Oh yes.

The CHAIRMAN: What would be the largest amount there?

Mr. BARCLAY: I can think of some that are two and a half million.

The CHAIRMAN: One person?

Mr. BARCLAY: Yes.

The CHAIRMAN: That is one person owing two and a half million and listed as uncollectible?

Mr BARCLAY: Among the uncollectibles?

Mr. BARCLAY: Yes.

Mr. BARCLAY: I think there may be as much as that in some of them.

The CHAIRMAN: And what would you say about corporations?

Mr. BARCLAY: They are not too far apart. The corporations are usually the larger, and the offshore companies have the greatest scope. We have many amounts over a million dollars that we doubt we can collect on.

The CHAIRMAN: I know your department never gives out individual names but when a name has appeared in the press it is public information. There is a person by the name of Doyle who owes your department a lot of money. Is this listed as collectible?

Mr. BARCLAY: It is not in the uncollectible.

The CHAIRMAN: It is listed as collectible?

Mr. BARCLAY: Oh yes; he is here.

The CHAIRMAN: Why are you not collecting the money?

Mr. BARCLAY: I think Mr. Sheppard had better answer that.

Mr. SHEPPARD: I cannot mention individual names but it is probably one of the ones under appeal.

Mr. FORBES: I understand that even though you appeal, once you are assessed you must pay it and then depend on your appeal for a refund.

Mr. SHEPPARD: Or post security.

Mr. FORBES: Did you get security in this case?

Mr. BARCLAY: Well, I have not the file before me.

Mr. FORBES: Well \$30 million would require quite a large security.

Mr. SHEPPARD: Are we supposed to mention individual names?

The CHAIRMAN: No.

Mr. FORBES: The name was brought up.

The CHAIRMAN: The name was in the press so I did not hesitate to mention it. I do not want to embarrass anybody in the department.

Mr. LEBLANC: I have noted many other names published in the press but I do not believe that we should pursue this. Mr. Sheppard, would you please elaborate on duplicate assessments, number 4, listing \$8 million and \$5 million.

Mr. SHEPPARD: This involves cases where there could be a doubt as to who has received the income and who really was taxable. With the four year limitation we have to assess within four years or the amount is barred by statute. In a case of that kind we might assess more than one person just so that the Crown is protected until the matter is subsequently resolved.

Mr. LEBLANC: How do you finalize that? Do you keep a double assessment all the way through?

Mr. SHEPPARD: Oh no.

Mr. LEBLANC: At one time or another you have to decide who is taxable.

Mr. SHEPPARD: That is right.

Mr. LEBLANC: That is only a temporary thing then?

Mr. SHEPPARD: That is right, until the court decides.

Mr. LEBLANC: Does the act allow you to assess the same amount of revenue in two ways?

Mr. SHEPPARD: Where there is a doubt we feel that we are under an obligation to protect the Crown. If only one of two parties could be assessable on certain income and if we were just to pick and assess one and then the courts decided it should have been the other party who should have been assessed, we would not have been able to collect. Where there is a reasonable doubt we honestly believe that we should assess both.

Mr. LEBLANC: Under what section would that be in the act?

Mr. SHEPPARD: The minister has the power to assess.

Mr. LEBLANC: That would be at the discretion of the minister?

Mr. SHEPPARD: Section 46(4) states that the Minister may at any time assess tax, interest or penalties under this part or notify in writing any person by whom a return for income for a taxation year has been filed and no tax is payable—

Mr. LEBLANC: It does not mention double assessment though?

Mr. SHEPPARD: No, but we can assess them for tax, interest and penalties.

Mr. FLEMMING: Mr. Sheppard, you mentioned four years. Is that the period in which if no action is taken in connection with an assessment there is no right to collect.

Mr. SHEPPARD: Yes, that is the section I am talking about, section 46(4), which goes on to say that the Minister must make this assessment within four years unless there is misrepresentation.

Mr. FLEMMING: Speaking in general terms only, do most of the uncollectible accounts come from people who are largely self-employed? Obviously people who are employed have the appropriate amount deducted from their wages or salaries.

Mr. BARCLAY: Are you speaking now of the individual?

Mr. FLEMMING: Yes, of the individual.

Mr. BARCLAY: Yes. I would say that most of the larger ones probably originate in the promotion of stocks. You would find these centred in Montreal, Toronto and Vancouver. Many of the others are engaged in land deals, subdivisions and so on, where very considerable profits are made under the hope that they may be considered capital profit—and again we find the ownership of the assets in Nassau or something like that. Those are the two largest sources of large debts that we have to cope with.

The CHAIRMAN: Mr. Barclay, I ask this question because it has been brought to my attention as a member. You speak of your increased skills in collections. Are you applying these skills fairly across the board.

Are you applying your skills of collection the same to a fellow who owes \$400 income tax as you do to a fellow that owes you \$1 million?

Mr. BARCLAY: The person that owes us \$400 does not usually require the same level of skills because it is not as hard to find out either what the flow of income through his hands is or what assets he holds that we can seize and sell. However, when you get into the very large amounts you usually find it is buried or hidden in a series of interlocking corporations—there may be as many as seven—and you have to trace the ownership of that through these many holdings, which takes a great deal of skill.

The CHAIRMAN: But if that man has the money he should pay up just the same as the poor fellow who owes \$400. If you walk in and take a TV or a car from the fellow that owes you \$400 you should do the same with a fellow that owes you \$1 million.

Mr. LEBLANC: It would take more than one TV.

The CHAIRMAN: I have often wondered about this.

Mr. BARCLAY: The large debtor usually employs some of the high price skills that are available, especially in the larger centres, and they have been winning the race. It is up to us now to find a way to use the present tools that we have to cope with it, or to turn to the legislative arm of government and say, "We need some more tools."

The CHAIRMAN: You are representing the Crown and I do not think you have any more tools than he should have. However, Mr. Leblanc and Mr. McKinley have questions. Then we should adjourn, gentlemen.

(Translation)

Mr. LEBLANC: Precisely before we adjourn, I have examined very carefully the report that was issued this year by the National Revenue which is entitled "Twenty-One Million A Day", and I think that the Committee should congratulate the Department of National Revenue for having issued a report which is as comprehensive and extensive, and I think that the Department should make it its duty as it has done, to have this distributed to as many taxpayers as possible because this report contains a great deal of information which concerns the taxpayer. I see that Mr. Sheppard has the report before him.

(English)

Mr. Sheppard, will you show that report to the Committee?

(Translation)

This is a report which is extraordinary. I have had the opportunity of examining it, and I think it is an excellent one and once again I would like to congratulate the Department for having produced such a comprehensive report.

(English)

The CHAIRMAN: Thank you, Mr. Leblanc. I am sure the committee concurs in that. Like many others, I have that on my desk. I have not been through it completely but I note, in thumbing through it, that it represents a lot of study.

An hon. MEMBER: Do we all have a copy of that?

Mr. SHEPPARD: I think Mr. Benson gave one to all members of Parliament.

The CHAIRMAN: Mr. McKinley, we are glad to have you with us. You have a question.

Mr. MCKINLEY: I am here because I understood Mr. Sheppard and Mr. Barclay were going to be here. You mentioned some of these larger accounts, individuals involved in real estate land deals and that sort of thing. Are you having difficulty because the regulations are not set down clearly enough? I understand that people who have owned a farm for 30 years and sell lots off the back end, maybe along a lakefront, are not supposed to be taxable; however, if they go too far they are considered to be more or less in the real estate business and they are taxable. Where is the line drawn?

Mr. BARCLAY: That is not the man who is giving us trouble because he is permanently here; he is probably a second, third or fourth generation Canadian and his roots are deep. He will complain bitterly about payment but that is not our problem. He is one of those who is now on the books but will be taken care of. The man that really will get off the books by a write-off is the one who has incorporated a string of companies, buys a block of land and subdivides it. The deals are completed and before it is all over it comes to our attention that this business is going on.

Mr. MCKINLEY: I am looking at the fellow on the other end. If a man has had a farm for 20 or 30 years and sells lots off the back of it, is he taxable on the money he gets for those lots?

Mr. BARCLAY: Of course that is not my field.

Mr. SHEPPARD: Mr. Chairman, if the man is a farmer and he acquired the property as a farmer and later on sells his property, normally we do not consider that to be income.

Mr. MCKINLEY: Even if he sells off the whole back of the farm in lots? Has this been brought up before?

The CHAIRMAN: No.

Mr. E. S. MACLATCHY (*Director, Legal Branch*): I think this is a most difficult subject. There is more litigation over land sales and whether or not they should be taxable than any other single subject that we have to dispute in the courts.

Mr. MCKINLEY: You do not have a law right now that says whether or not it is taxable?

Mr. MACLATCHY: No. You have to decide whether he is really in fact carrying on a business or just liquidating capital assets.

Mr. MCKINLEY: That is the law that decides whether he is in the real estate business or just a farmer selling lots?

Mr. MACLATCHY: All the act mentions is taxes on profits from adventures in the nature of trade. The court has to decide whether or not a particular transaction amounts to that.

The CHAIRMAN: It would appear from what the officials of the department say that it is difficult to make a ruling as to whether or not that farmer is in the real estate business. If he sold the whole farm as lots quite naturally he would be in the real estate business. But in the case you mentioned, just selling a few lots off the back of the farm, is he or is he not in the real estate business? If he is in the real estate business he is subject to taxes.

Mr. MCKINLEY: There are many cases but I took this one just as an example. This man has owned the farm for 30 or 40 years, which is entirely different to a man that buys a farm to sell.

Mr. MACLATCHY: A speculator.

Mr. MCKINLEY: It appears that that is where they make the difference. Also quite a problem has been brought to my attention with respect to farmers selling all the lumber out of their wood lots to a company. This money is taxable. But, if they sell the whole wood lot, land and all where perhaps cattle have been grazing and there is a water supply, it is not taxable; it is capital gain. Is there any headway being made to change this arrangement. The same is true of gravel off the farm. This is also causing quite a problem to people who want to buy lumber; they are not able to buy it from the farmer because if he sells it, it is taxable, and they do not want to buy a whole piece of land which may consist of ten acres off the back end of a farm.

Mr. PRITTIE: It is the same as wheat, corn or fruit; it is only a product.

Mr. MCKINLEY: No it is not. Once you sell your bush it does not come back for 100 years or more. You can grow wheat the next year again.

The CHAIRMAN: Mr. MacLatchy do you wish to comment on that?

Mr. MACLATCHY: Again, this is a very difficult area. Normally, though, under the law profits from taking timber off the land are taxable. It is the same with a farmer as with a huge timber operator out on the west coast; it is a crop. If a farmer decided to sell his timber lot land and all, in one sale, we would recognize that as capital.

Mr. MCKINLEY: This does not seem proper. You mention a fellow that may be in the wood lot business, which is the only business he has. It would seem to me that he would fall partially in the same category as the man in the real estate business. You charge the real estate man but the man who is just selling a few lots you do not charge. Would it not seem reasonable you should?

Mr. MACLATCHY: I do not think the same law applies.

The CHAIRMAN: It is in the realm of policy and I know it is difficult for you gentlemen to answer along policy lines.

Mr. FLEMMING: I am not too clear about one point you brought out, Mr. Chairman. It was that if a person sells a farm for purposes of subdivision then he is in the real estate business. Now I am saying that if he sells his own home farm for purposes of subdivision it is a capital gain, but he could not go and buy one with the express purpose of doing this. Is that not right? But if he sells his own home farm or any portion of it for subdividing into lots, that is a capital gain.

Mr. MACLATCHY: Provided the farmer does not subdivide it himself.

Mr. FLEMMING: Oh no; he just sells the farm.

Mr. MACLATCHY: The other person will then be carrying on the venture.

Mr. FORBES: What difference does it make whether he sold the whole farm, or one block or whether he subdivided it and sold it?

Mr. FLEMMING: If he subdivides it he becomes a real estate man.

Mr. MACLATCHY: Again, it is not all that clear. The reason we have so many disputes about this type of thing is that it has to be determined whether he is simply disposing of his capital assets or whether he is now going into the business of selling land.

Mr. FORBES: In other words, you fellows give the Crown the benefit of the doubt and not the farmer?

Mr. LEFEBVRE: I have a supplementary to Mr. McKinley's question. Taking the case of a farmer who has a wood lot on his farm and harvests maybe 50 or 100 cords pulpwood every year, is this taxable?

Mr. MACLATCHY: Yes.

Mr. LEFEBVRE: That is the same as your man selling timber. If it is taxable in the case of pulpwood why would it not be taxable in the case of timber?

Mr. MCKINLEY: If he sells ten acres, that is a lot of pulpwood. If he sells that complete, land and all, it is not taxable; it is capital gain.

Mr. MACLATCHY: That is right.

Mr. LEFEBVRE: It is the same thing as a man in business. If he does business every day it is taxable, but if he sells his business it is a capital gain.

Mr. MCKINLEY: These people are all getting around it. They are selling the whole works and maybe getting it back a few years later. They are all getting around it.

Mr. LEFEBVRE: You mean they sell it and then they buy it back?

Mr. MCKINLEY: They get it back for nothing.

Mr. LEFEBVRE: These farmers are smarter than most of us.

Mr. MCKINLEY: It seems like a ridiculous arrangement.

The CHAIRMAN: Mr. Sheppard has a comment.

Mr. SHEPPARD: I did not want to interfere with this particular comment but Mr. Flemming asked if I could account for the increase in accounts receivable between 1964 and 1965. I think the difficulty arises for comparing the \$177 million with the \$129 million, and those are not the total amounts. They are just parts of it which the Auditor General figured should be specifically analyzed and

commented upon. The total accounts receivable are \$220 million in 1965, and that includes \$6 million deferred taxes and provincial taxes. If we could eliminate those the total accounts receivable at March 31, 1965 are \$213,976,282 and the comparable figure for 1964 is \$217,688,214. We have analysis of these two amounts which can be put on the record, if you wish them.

The CHAIRMAN: So the difference is roughly a little less than \$4 million, a decrease from the previous year. Mr. McKinley, you wanted to come back to that other matter?

Mr. MCKINLEY: I was just wondering if this had been taken up with the department before and, if so, is any action being contemplated on this.

Mr. SHEPPARD: Mr. Chairman, it has been brought up before. It is not a question of departmental action in this sense other than an attempt to interpret the law. As Mr. MacLachy said, there is a great deal of jurisprudence on this very point. It is one of the most difficult points that we have to decide. If a person is selling timber, well then, it is income, and if he sells his land it probably is a capital gain. Apart from a change in the legislation we cannot do anything about that.

Mr. MCKINLEY: Is there any chance of having the legislation changed?

Mr. SHEPPARD: The Carter report will be coming out shortly and it will be making recommendations on that subject.

Mr. MCKINLEY: We will just wait for it and hope the recommendations are good.

Mr. LEBLANC: The Belanger commission already made a recommendation to tax capital gains, to which I objected strongly and I said so in the House. Although that will settle any problems, I do not believe it will make the taxpayer happy.

The CHAIRMAN: It is a very important matter and it likely will be discussed on the floor of the House one of these days after the Carter report is tabled and some recommendations or amendments to the act are brought forward.

Gentlemen, is it agreed that this accounts receivable breakdown on pages 116 and 117 should be carried on by the Auditor General—it has proven useful to us—and maybe expanded on for the information of the committee.

Some hon. Members: Agreed.

The CHAIRMAN: The only other matter I had hoped we might have had a chance to talk about before we adjourned for this session had to do with one of our in camera meetings. One of the matters suggested was that perhaps we should have the Auditor General give us a breakdown of the operation of the Parliamentary Restaurant. We have not got to that, and it is not in his report. At one of our in camera meetings at a later time we can discuss that.

We will not be meeting now until sometime in January, at which time we will have a new agenda and program. We have just about completed this 1964 and 1965 Report of the Auditor General. I am happy to say that, in my opinion, it has been gone over with a fine-toothed comb and has received more attention than any report has received for many years. This is our 37th meeting. The members of the committee have been very faithful and I appreciate the interest

you have shown and the work you have done on these matters referred to us by the House. Mr. Leblanc, were you about to comment?

Mr. LEBLANC: You were speaking about the restaurant report. I am a member of the Restaurant Committee. We sat and examined the report with Mr. Henderson. We went through all those figures. I do not know if we should make an examination here.

The CHAIRMAN: Maybe you want to leave that. As I say, at some in camera meeting we can discuss this.

Mr. HENDERSON: May I just add a word to what Mr. Leblanc has said on that, Mr. Chairman. He quite correctly referred to the report that I render to the Speakers of both Houses with regard to the operation of the Parliamentary Restaurant, and those members who are members of the Restaurant Committee have seen it. It has never been the practice either for my predecessors or for me to deal with this in my report to the House. I do not know what the wishes of the members of this committee or members of the House are. It does seem to me that the submission of that detailed report to the Joint Speakers who, in turn have discussed it with the Joint Parliamentary Restaurant Committee, has provided a sufficient basis for discussion. I am not contemplating, Mr. Chairman, that this year I would include anything in my forthcoming 1966 Report with regard to the Parliamentary Restaurant unless members of the committee think otherwise. I should appreciate an expression of views on this point.

Mr. LEBLANC: I think that our committee has enough work without going through other items that concern other committees which are going into it. It would be a good thing if we could avoid this because we have enough work on our hands just going through the report as it is now.

The CHAIRMAN: That may be the wish of the committee, and if so I suggest we wait until we have a full meeting and get an opinion of the committee.

Mr. LEFEBVRE: Mr. Chairman, before you adjourn I should like to ask if you will be having a meeting of the members early in the New Year in order to draw up an agenda?

The CHAIRMAN: Yes, our Steering Committee will meet to draft the agenda. We will have to have some in camera meetings to draft our reports to the House, and then we can proceed with our new agenda.

Mr. FORBES: Mr. Chairman, seeing this is the last meeting, as you said, and Mr. Tucker was kind enough to provide us with refreshments, when can we get the Chairman to put on a reception.

The CHAIRMAN: I invite the whole committee to my home. The meeting is adjourned.

APPENDIX "12"

DEPUTY MINISTER OF DEFENCE PRODUCTION
SOUS-MINISTRE DE LA PRODUCTION DE DÉFENSE

OTTAWA 4, November 24, 1966.

Mr. A. D. Hales, M.P.,
House of Commons,
Ottawa, Ontario.

Dear Mr. Hales:

On November 1, 1966, when I was before the Standing Committee on Public Accounts, I was asked to file with the Committee the legal decision concerning the D.D.P Revolving Fund. I am attaching hereto a submission made by D.D.P on March 4, 1965, together with the legal opinion from the Deputy Attorney General dated April 13, 1965.

At the same meeting, Mr. J. R. Brisson, President of Canadian Arsenals Limited, was asked to produce the actual values of contracts let to the Valleyfield Plant since the date of the sale of that Plant to Canadian Industries Limited. The value of contracts placed in the fiscal year 1965/66 was \$241,200, and for the fiscal year 1966/67 (up to November 1, 1966), \$445,000.

Yours faithfully,
G. W. Hunter,
Deputy Minister.

APPENDIX "18"

DEPUTY MINISTER OF DEFENCE PRODUCTION
SOUS-MINISTRE DE LA PRODUCTION DE DÉFENSE

E. A. Driedger, Esq.,
Deputy Minister &
Deputy Attorney General of Canada,
Department of Justice,
Room 342, Justice Bldg.,
Ottawa, Ont.

OTTAWA 4, March 4, 1965.

Dear Mr. Driedger:

I wish to request your opinion, with respect to the operation of the D.D.P. Revolving Fund, as to whether or not the provisions contained in Section 58 (5) of the Financial Administration Act apply in lieu of the provision contained in Section 16 (5) of the Defence Production Act.

This question has arisen through a difference of opinion between this Department and the Auditor General with respect to the disposition of certain balances now held in a suspense account in the Revolving Fund totalling \$1,-255,779.00, which have accumulated through: the sale of stockpiled cloth at a net gain; the sale of stockpiled tin at a net gain; and the collection of interest on sale agreements covering three of five stockpiled CL44 aircraft.

These amounts, which appear in the Department's closing Balance Sheet for the year ending March 31, 1964, have elicited the following draft comments from the Auditor General, which, if confirmed, will form part of the Auditor General's comments pertaining to the Departmental Report for 1963-64, which will be published in the Departmental Annual Report and tabled in the House of Commons:

"The Department's revolving fund, established under section 16 of the Defence Production Act, contained an accumulated surplus of \$1,-255,779 at March 31, 1964. Section 58 (5) of the Financial Administration Act provides that when a revolving fund ends the year with a surplus, such surplus shall be transferred from the revolving fund as revenue. In our opinion this surplus should have been transferred in accordance therewith."

It is the Department's contention that these balances are temporary in nature, do not reflect a profit, and that the Department's action in temporarily retaining these balances is consistent with the Department of Defence Production Act and the interpretation given to this Act and the Financial Administration Act by the Departments of Justice and Finance at an early period in the Department's life when an effort was made to establish which Act contained the governing legislation for the operation of the D.D.P. Revolving Fund.

The effort to clarify this position resulted at that time in two communications, copies of which are attached. The first, is a memorandum from D.A. Golden, then Assistant Deputy Minister, to R. M. Keith, dated April 17, 1953,

setting out the position apparently reached jointly by Messrs. H. R. Balls, D. H. W. Henry and D. A. Golden, who were acting respectively for the Departments of Finance, Justice and Defence Production. The second, a letter from R. G. MacNeill, Treasury Board Division, Department of Finance, dated April 30, 1963, confirms the position reached in Mr. D. A. Golden's memorandum that the provisions of Section 58 (5) of the Financial Administration Act do not apply to the operation of the D.D.P. Revolving Fund.

It is understood that at least one of the reasons underlying this conclusion is that Section 58 (5) of the Financial Administration Act was designed to cover trading operations which were carried out on a continuous basis, and it would therefore be proper to have an annual accounting for these transactions and to accompany this annual accounting with an annual adjustment of the gain or loss from trade.

With respect to the transactions in question, the disposal of the wool and the tin have both resulted in the receipt of proceeds in excess of inventory values but the long term turnover action of the strategic material inventory is not complete. A comparison of the market value and inventory value of the remaining items held indicates a potential loss in the near future of about \$500,000. It would, therefore, seem to be inappropriate to anticipate reporting to Parliament that a loss had occurred, when in fact the overall operations of the strategic material inventory account may well show a very slight profit. A somewhat similar situation exists with respect to the stockpiled aircraft. One of the five aircraft is still unsold and this represents a potential loss. The agreements covering the four aircraft sold provide for medium long term payment arrangements with companies, which in two instances, may or may not be able to pay up 100 per cent of their obligations. Until this doubt has been resolved it is considered that the interest payments should be held in reserve as a possible write-off against uncollected principal or inventory values.

This problem has been discussed with S. Samuels of your Department, by R. M. Keith, D.D.P. Financial Adviser, and I wish to reaffirm the Department's interest in obtaining, if possible, an opinion of the Department of Justice in the early part of this month, so that a resolution can be sought at the earliest possible date. I would greatly appreciate any action that you can take along these lines. If any additional information held by this Department is required I will furnish it promptly. Copies of this letter and enclosures are being forwarded to H. R. Balls and D. H. W. Henry in the hope that they may be able to provide your Department with some recollections or documents that have a bearing on the opinion reached about this question during 1953.

Yours faithfully,

G. W. Hunter,
Deputy Minister.

Nov. 29, 1966

PUBLIC ACCOUNTS

1361

DEPARTMENT OF JUSTICE

OFFICE OF THE
DEPUTY MINISTER OF JUSTICE
AND
DEPUTY ATTORNEY GENERAL OF CANADA

OTTAWA 4, April 13, 1965.

205702

G. W. Hunter, Esq.,
Deputy Minister,
Department of Defence Production,
Ottawa 4, Ontario.

Dear Mr. Hunter:

You have asked for my opinion, as I understand your letter of March 4th last, whether subsection (5) of section 58 of the Financial Administration Act applies to or in respect of the Defence Production Revolving Fund that was established pursuant to section 16 of the Defence Production Act.

Subsection (5) of section 58 of the Financial Administration Act, in my opinion, does not apply to or in respect of the operation of the Defence Production Revolving Fund.

Section 16 of the Defence Production Act is a provision that deals specifically and at length with the operation of the Defence Production Revolving Fund. In particular, subsections (2) and (3) expressly stipulate the charges that may be made to the fund, and the receipts that shall be shown, and subsection (4) deals expressly with the balance of the revolving fund; I would regard these provisions as exhaustive, and therefore precluding the entry of any other charges or receipts.

I find further support for this conclusion in the circumstance that the Defence Production Revolving Fund, as described in section 16 of the Defence Production Act, was established for purposes in addition to or other than the purposes mentioned in section 58 of the Financial Administration Act.

Yours truly,

E. A. DRIEDGER,
Deputy Attorney General.

APPENDIX "19"

DEPARTMENT OF NATIONAL REVENUE

TAXATION DIVISION

Information Bulletin No. 34

Date: 23rd November, 1966.

Subject:

REGISTERED CANADIAN CHARITABLE ORGANIZATIONS

This bulletin is for the guidance of those charitable organizations which are described in sub-paragraph (i) of Section 27(1) (a) of the Income Tax Act (as revised effective 1st January, 1967), and which issue receipts that are used by donors to support deductions claimed under that section of the Act.

It should be noted that the amendments to the Income Tax Act and the relevant Regulations dealt with in this Bulletin do not affect receipts issued by charitable organizations for gifts made up to and including 31st December, 1966.

To qualify for the deduction, the gift for which a receipt is issued must have been made to a "registered Canadian charitable organization".

Sub-section (3b) of Section 27 of the Act specifies that a "registered Canadian charitable organization" means:

- (a) a charitable organization, corporation or trust in Canada as described in paragraphs (e), (f) or (g) of Section 62(1) of the Income Tax Act, or
- (b) a branch, section, parish, congregation or other division of an organization described in (a) that received donations on its own behalf.

The sub-section further specifies that, to be registered, the organization described in (a) or (b) must make an application in prescribed form.

Prescribed Forms

The prescribed form of Application for Registration is form T2050 and the prescribed form of Return of Information is form T2052. Both are available at the District Taxation Offices, as are copies of this Information Bulletin.

Registration

All Canadian charitable organizations are required to register if donations to them are to be permitted as deductions from income.

Those branches, sections, divisions or local bodies of greater organizations that do not receive donations on their own behalf and merely act as collecting offices for a regional, provincial or national body of their organization do not have to register, but any receipt they issue for donations they collect must be issued in the name of the regional, provincial or national body on whose behalf the donations are received.

All other local bodies of greater organizations must apply for registration, including local parishes or congregations of the various religious denominations.

Organizations which had previously been approved as charitable organizations will also have to be registered and will have to file an Application for Registration.

One copy of the Application for Registration form T2050 is to be filed with the Registrar-Examiner of Charitable Organizations at the address shown on the form. It should be noted that there is to be submitted with the form, in addition to a copy of the financial statements for the last fiscal period ended prior to date of application, a copy of the letters patent, charter, trust deed or constitution and of the by-laws of the organization. Where there are no such documents, a complete statement giving full details of the aims and objectives as well as the structure of the organization is to accompany the form. The absence of those documents or statements will only delay the consideration of the application.

It should be noted that the name of the organization as entered on the Application for Registration form is the name under which the organization will be officially registered and the name which must appear on all official donation receipts.

Registration Number and Receipts

When it has been determined that the applicant qualifies as a charitable organization, a Notification of Registration, form T2051, will be issued to each. This form will give advice of the effective date of the registration and of the Registration Number assigned to the individual organization. Thereafter, receipts for charitable donations issued by that organization should show that number and comply in other respects with the requirements of Part XXXV of the Income Tax Regulations.

Books and Records

It is required that duplicates of the donation receipts issued by a registered Canadian charitable organization be kept at the address recorded in the Application for Registration form.

Such organizations should have available for inspection sufficient records to enable the receipts they issue to be verified.

Annual Return of Information

One completed Return of Information form T2052 accompanied by a copy of the financial statements for the period, is to be filed each year with the Registrar-Examiner within three months from the end of their fiscal period by all registered Canadian charitable organizations. The first such Return of Information will be due, in the case of organizations whose fiscal period is the calendar year, on or before 31st March, 1968, and will cover the calendar year 1967. In the case of organizations whose fiscal period is other than the calendar year, the first Return of Information will be due within three months from the end of the fiscal period ended in 1967 and will cover all of that fiscal period; e.g. for an organization whose fiscal period ends 30th June, the first Return of Information should be filed on or before 30th September, 1967.

Employees' Charity Trusts

For a number of years, there has been sanctioned a procedure whereby employees of business firms pledge contributions to charitable organizations and authorize their employer to withhold the amount pledge through payroll deduc-

tions. The amounts thus withheld are, in effect, held in trust for the employees. The employer in turn remits the total amount withheld from the employees to the charitable organizations concerned. The amount contributed by each employee is reported on the T4 Return filed by the employer. The T4 slip received by the employee showing the amount of his contributions has been accepted as a valid donation receipt for the purposes of the deduction allowed by Section 27(1) (a) of the Income Tax Act.

These employees' trust funds are defined in the Regulations as "employees' charity trusts". Each employer who has organized such a fund should file a Application for Registration of his "employees' charity trust". A Notification of Registration will be issued to qualify the trust under the provisions of Section 62(1) (g) of the Income Tax Act and a Registration Number will be assigned. That number is the one to be shown on the employee's T4 slip in accordance with Section 3502 of the Income Tax Regulations.

It must be noted that employers who withhold from their employees through payroll deductions amounts other than those that are to be remitted to registered Canadian charitable organizations should, from now on, keep separate accounts to segregate such amounts held in trust for charitable donation purposes from other withholdings, such as those to provide funds for flowers, gifts or Christmas parties.

D. H. SHEPPARD,
Deputy Minister (Taxation).

INCOME TAX REGULATIONS

P.C. 1966-2032

"PART XXXV.

CHARITABLE ORGANIZATIONS.

Definitions.

3500. In this Part.

- (a) "employees' charity trust" means a registered organization that is organized for the purpose of remitting, to other registered organizations, donations that are collected from employees by an employer by means of payroll deduction;
- (b) "official receipt" means a receipt for the purpose of paragraph (a) of subsection (1) of section 27 of the Act, containing information as provided in section 3501 or 3502;
- (c) "official receipt form" means any printed form which a registered organization has that is capable of being completed, or that originally was intended to be completed, as an official receipt of the organization; and
- (d) "registered organization" means a registered Canadian charitable organization.

Contents of Receipts.

3501. (1) Every official receipt issued by a registered organization shall contain a statement that it is an official receipt for income tax purposes, and shall show clearly, in such a manner that it cannot readily be altered,

- (a) the name and address in Canada of the organization as recorded with the Minister;
- (b) the registration number assigned by the Minister to the organization;
- (c) the serial number of the receipt;
- (d) the place or locality where the receipt was issued;
- (e) the day on which, or the year during which, the donation was received;
- (f) the day on which the receipt was issued where that day differs from the day referred to in paragraph (e);
- (g) the name and address of the donor including, in the case of an individual, his first name or initial;
- (h) the amount of the donation; and
- (i) the signature, as provided in subsection (2) or (3), of a responsible individual who has been authorized by the organization to acknowledge donations.

(2) Except as provided in subsection (3), every official receipt shall be signed personally by an individual referred to in paragraph (i) of subsection (1).

(3) Where all official receipt forms of a registered organization are

- (a) distinctively imprinted with the name, address in Canada, and registration number of the organization,
- (b) serially numbered by a printing press or numbering machine, and
- (c) kept at the place referred to in subsection (1a) of section 125 of the Act until completed as an official receipt, the official receipts may bear a facsimile signature.

(4) An official receipt issued to replace an official receipt previously issued shall show clearly that it replaces the original receipt, and, in addition to its own serial number, shall show the serial number of the receipt originally issued.

(5) a spoiled official receipt form shall be marked "cancelled" and such form, together with the duplicate thereof, shall be retained by the registered organization as part of its records.

(6) Every official receipt form on which

- (a) the day on which the donation was received,
- (b) the year during which the donation was received, or
- (c) the amount of the donation

was incorrectly or illegibly entered shall be regarded as spoiled.

Employees' Charity Trusts.

3502. Where a registered organization is an employees' charity trust and each copy of the return required by section 200 to be filed for a year by an employer of employees who donated to the trust in that year shows

(a) the amount of each employee's donations to the organization for the year, and

(b) the registration number assigned by the Minister to the organization, section 3501 shall not apply, and the copy of the portion of the return relating to each employee who made a donation such organization that is required by section 209 to be distributed to him for filing with his income tax return shall be an official receipt."

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966-67

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

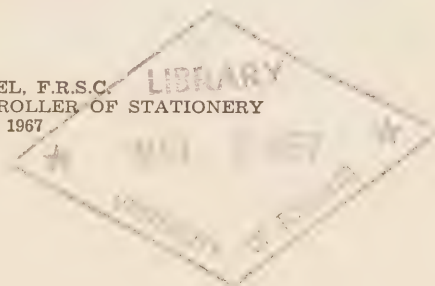
PROCEEDINGS
No. 31

THURSDAY, FEBRUARY 2, 1967

Public Accounts, Volumes I, II and III (1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

INCLUDING TENTH AND ELEVENTH REPORTS
TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Southam,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Tardif,
Mr. Cameron	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Dionne,	Mr. Noble,	Mr. Tremblay,
Mr. Flemming,	Mr. Racine,	Mr. Tucker,
Mr. Forbes,	Mr. Schreyer,	¹ Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

¹ Replaced Mr. Prittie on January 25, 1967.

ORDER OF REFERENCE

WEDNESDAY, January 25, 1967.

Ordered,—That the name of Mr. Winch be substituted for that of Mr. Prittie on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND

The Clerk of the House of Commons.

REPORTS TO THE HOUSE

TUESDAY, February 7, 1967.

The Standing Committee on Public Accounts has the honour to present its

TENTH REPORT

1. Your Committee held meetings on October 25 and November 1, 1966 in the course of which the following officers were in attendance:

From the Canadian Broadcasting Corporation:

Mr. J. Alphonse Ouimet, President
Mr. J. P. Gilmore, Vice-President—Planning
— Mr. Guy Coderre, Vice-President—Administration
Mr. V. F. Davies, Vice-President—Finance

From the Department of National Defence:

Mr. E. B. Armstrong, Deputy Minister
Dr. J. C. Arnell, Assistant Deputy Minister—Finance
Mr. O. D. Turner, Assistant Director of Finance—Domestic

From the Department of Defence Production:

Mr. G. W. Hunter, Deputy Minister
Mr. J. R. Rutledge, Director of Shipbuilding

From Canadian Arsenals Limited:

Mr. J. R. Brisson, President

From Defence Construction (1951) Limited:

Mr. A. G. Bland, President

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
Mr. George Long, Assistant Auditor General
Mr. A. B. Stokes, Audit Director
Mr. J. R. Douglas, Audit Director
Mr. F. A. Matthews, Assistant Audit Director
Mr. J. M. Laroche, Assistant Audit Director
Mr. A. G. Cross, Assistant Audit Director

2. The following is a report on the work done by your Committee at these meetings.

3. In the course of its meetings your Committee gave consideration to:

- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee. In its final report your Committee intends to list items brought to the attention of the House, the number acted upon and those that remain outstanding.

(b) the following paragraphs in the Reports of the Auditor General:

For the fiscal year ended	
March 31, 1964	March 31, 1965
Summary of Expenditure and Revenue ..	12 to 49
Comments on Expenditure and Revenue Transactions:	
Canadian Broadcasting Corporation ..	56
Citizenship and Immigration	58
Defence Production	59, 60
External Affairs	61
National Defence	73(3), 74, 76, 78, 79, 80, 81, 82

DEPARTMENT OF EXTERNAL AFFAIRS

4. *Department of External Affairs missions abroad*

The Committee noted the circumstances surrounding losses of public funds suffered by the Department of External Affairs at missions abroad which might have been prevented had test verifications of the financial and accounting records been carried out by the Department, possibly in conjunction with its inspection procedures.

The Committee believes that test verification work of this nature is essential to the maintenance of any effective system of internal financial control, particularly in a department as widespread in its ramifications as External Affairs. The Committee recommends that the Department establish a small internal audit staff without delay to carry out periodic examinations of the financial transactions and related administrative procedures at its embassies and missions abroad. Such a staff unit should be responsible directly to an officer senior enough at departmental headquarters to act upon its findings without undue delay and copies of its reports should be made available to the Auditor General.

CANADIAN BROADCASTING CORPORATION

5. *Salaries and wages paid for work not performed*

The practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance was discussed by the Committee with the President and senior officers of the Corporation. It was noted that such payments aggregate \$450,000 per annum.

While recognizing that payments of this nature must continue to be made in accordance with the provisions of the union agreements, the Committee recommends that the payments be eliminated by the management of the Corporation as and when the present union agreements come up for renewal. The Committee considers that public funds should not be disbursed for work not performed and that it is the responsibility of the managements of Crown corporations to ensure that taxpayer's money is not used for non-productive work of this nature.

DEPARTMENT OF DEFENCE PRODUCTION

6. Surplus in Defence Production Revolving Fund

The practice of the Department of Defence Production in retaining in its Revolving Fund a surplus, derived from interest earned and profits made on strategic material inventories disposed of amounting to \$1,818,000 at March 31, 1965, was discussed with the Deputy Minister and senior officials of the Department of Defence Production. The Committee noted that the Defence Production Act is silent with respect to the treatment of a surplus in the Revolving Fund although the Financial Administration Act requires that a surplus in a revolving fund be transferred annually from the revolving fund and recorded as revenue of the year. It also noted that this surplus has not been transferred from the Revolving Fund as revenue for the reason that the Department wishes to retain it in the Revolving Fund as protection against possible losses on similar transactions in future.

The Committee is of the opinion that accumulation of revenues against which future losses might be charged weakens parliamentary control of public funds. If a loss occurs because amounts due to the Crown cannot be collected, or if a write-off is required because some strategic material stockpiled by the Government can only be liquidated below cost, then Parliament should be informed of and be given an opportunity to discuss such losses by means of a prompt request for an appropriation to recoup the Revolving Fund.

Accordingly the Committee recommends that the surplus in the Defence Production Revolving Fund be transferred annually from that Fund as budgetary revenue.

DEPARTMENT OF NATIONAL DEFENCE

7. Transportation on leave allowance

The Committee noted that since the introduction of special economy rates by the Railways, amounts paid to servicemen by the Department of National Defence under its regulations for long journeys have been in excess of actual rail fares.

The Committee recommends that the Department of National Defence take steps to bring its transportation allowance into line with current rail rates.

8. Proposed removal allowance

The Committee heard the suggestion from one of its members that it would be mutually advantageous to the Crown and to servicemen concerned were members of the armed forces who are being transferred given the option of having their household furniture moved at public expense or receiving a cash allowance equivalent to 90% of the estimated costs of moving the furniture. The Committee recommends that the Department of National Defence give consideration to recommending the establishment of such a cash allowance and that it advise the Chairman of the Committee and the Auditor General of its decision.

9. Questionable charge to Vote 15 of the Department of National Defence

The Committee noted the circumstances under which the cost of transporting a McGill University medical team to Easter Island (Which is owned by Chile and is located 1,200 miles off the west coast of South America), amounting to \$215,000, was charged to the Royal Canadian Navy appropriation (Vote 15).

In the opinion of the Committee this expenditure represented a contribution to an outside organization and should not have been undertaken without specific parliamentary approval.

10. Excessive payments to municipal school board

The Committee heard from the Deputy Minister the circumstances leading up to the overpayment of an estimated \$200,000 to a municipal school board and of subsequent problems in seeking to recover this amount. It understands that proposals have been made to effect recovery over a period of years. It urges the Department to see to it that full recovery is made and to adopt businesslike procedures designed to ensure that such overpayments do not occur in future. The Committee feels that the correctness of payments made in any year should be confirmed immediately following the close of the year and if an overpayment has occurred it should be recovered within the next few months. It can see no excuse for overpayments accumulating over a period of ten years.

* * * * *

A copy of the relevant Minutes of Proceedings and Evidence (Nos. 22 and 23) is appended.

Respectfully submitted.

TUESDAY, February 7, 1967.

The Standing Committee on Public Accounts has the honour to present its

ELEVENTH REPORT

1. Your Committee met on November 3, 1966 at which time the following officers from Central Mortgage and Housing Corporation were in attendance:

Mr. H. W. Hignett, President

Mr. Jean Lupien, Vice-President

Mr. R. W. Desbarats, Comptroller

Mr. K. D. Tapping, Secretary to the Board of Directors

2. The following is a report on the work done by your Committee at the meeting.

CENTRAL MORTGAGE AND HOUSING CORPORATION

3. Appointment of auditors of the Corporation

In response to questions from the Committee as to why the Auditor General of Canada is not the auditor or a joint auditor of Central Mortgage and Housing Corporation, the President of the Corporation pointed out to the Committee that under section 31 of Part III of the Central Mortgage and Housing Corporation Act, the Minister, with the approval of the Governor in Council, appoints two auditors to audit the affairs of the Corporation. He stated that an auditor so appointed serves for a term of two years and cannot be reappointed until one year following and that the auditors are required to submit a report to the Minister within ten weeks of the end of the Corporation's fiscal year. In connection with the foregoing, the Committee has noted the statutory provisions of

the Central Mortgage and Housing Corporation Act relating to audit which read as follows:

31. (1) The Minister, with the approval of the Governor in Council, shall appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of the Corporation.

(2) No person is eligible to be an auditor unless he resides in Canada, is an accountant who has for at least six years preceding the date of his appointment practised his profession in Canada, and is a member in good standing of an institute or association of accountants incorporated under the authority of the legislature of any province of Canada.

(3) No person is eligible to be an auditor if he or any member of his firm has been auditor for two successive years during the three next preceding years.

(4) When any vacancy occurs in the office of the auditor of the Corporation, notice thereof shall forthwith be given by the Corporation to the Minister who thereupon shall appoint some other auditor to serve until the last day of February next following.

(5) No director or officer of the Corporation and no member of a firm of auditors of which a director is a member, is eligible for appointment as an auditor.

(6) The Minister may from time to time require the auditors to report to him upon the adequacy of the procedure adopted by the Corporation for the protection of its creditors and as to the sufficiency of their procedure in auditing the affairs of the Corporation; and the Minister may, in his discretion, enlarge or extend the scope of the audit or direct that any other procedure be established or that any other examination be made by the auditors as the public interest may seem to require.

(7) A copy of every report made by the auditors to the Corporation under this section shall be transmitted to the Minister by the auditors at the same time as such report is transmitted to the Corporation.

In accordance with its recommendations to the House in 1964 and again in 1966, the Committee strongly reiterates that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and report thereon to the House.

The Committee therefore recommends that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation.

4. Reports of the Auditors

The Committee asked the President and Comptroller of the Corporation if, in addition to their statutory report to the Minister which is tabled in the house the present auditors provided the management of the Minister with any reports containing observations and comments by the auditors on the operations of the Corporation for the year under review. The Comptroller of the Corporation stated that a separate report along these lines is provided by the External

Auditors but that it had never been tabled in the House or supplied to a Public Accounts Committee of the House.

In response to further questioning the President stated that the separate report dealing with the activities of the Corporation was placed in the hands of the Minister and that he did not think the management of the Corporation could undertake to make it available to the Committee because "it is not a Corporation document in that sense".

At the direction of the Committee, its Clerk wrote to the President of the Corporation on November 8, 1966 to request copies of these separate audit reports. He was advised by the President on December 1 that "the Corporation is unable to comply with your request that the reports prepared by the External Auditors be forwarded to you".

According to our terms of reference and powers granted, the Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the External Auditors of any Crown corporation and requests that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

5. Securities held by Mortgage Insurance Fund

The Committee noted that the Balance Sheet of the Mortgage Insurance Fund of the Corporation showed securities issued and guaranteed by the Government of Canada as assets having an amortized cost on the books of the Fund of \$85,927,540 at December 31, 1964. In response to questions by the members of the Committee, the Comptroller of the Corporation stated that the current market value of this portfolio at that date approximated \$81,595,000.

The Committee recommends that in future the Corporation disclose the market value of securities of this nature in its financial statements by means of either a parenthetical note against the item on the statement or a footnote to the Balance Sheet.

6. Statement of Net Income

The Committee noted that in the Statement of Net Income issued by the Corporation, Administrative Salaries and Expenses appeared as one figure, namely \$14,599,145 at December 31, 1964 without any breakdown or detail excepting four footnotes disclosing certain items therein as called for by the Canada Corporations Act.

The Committee believes that it would be more informative to Parliament if this figure were broken down by the Corporation in future into its major categories or areas of expense in accordance with generally accepted accounting practice and the practice followed by other Crown corporations on their financial statements.

* * * * *

A copy of the relevant Minutes of Proceedings and Evidence (No. 24) is appended.

Respectfully submitted,

ALFRED D. HALES,
Chairman

MINUTES OF PROCEEDINGS

THURSDAY, February 2, 1967.

(41)

The Standing Committee on Public Accounts met *in camera* this day at 9.45 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Forbes, Hales, Leblanc (*Laurier*), Noble, Tardif, Thomas (*Maisonnette-Rosemont*), Tremblay, Tucker, Winch (10).

By unanimous consent it was ordered that the following letters and statements tabled by the Chairman be attached as appendices to today's Proceedings:

Central Mortgage and Housing Corporation

(See APPENDIX "20")

Mr. J. R. Baldwin, Deputy Minister of Transport

(See APPENDIX "21")

Honourable Mitchell Sharp, Minister of Finance

(See APPENDIX "22")

The Chairman welcomed the return of Mr. Winch, M.P. to the Committee.

The Committee considered interim draft reports on its meetings October 25, November 1, November 3, November 8, November 17, 1966.

Following discussion, the reports were amended, adopted as amended and the Committee ordered the Chairman to present them to the House as their Tenth, Eleventh and Twelfth Reports.

Consideration of further draft reports was allowed to stand pending further information.

It was agreed that the Secretary of the Treasury Board and the Auditor General of Canada be invited to appear before the Committee at its next meeting.

At 11.00 a.m., discussion continuing, the Committee adjourned to the call of the Chair.

J. H. Bennett,

Clerk of the Committee.

APPENDIX "20"

"A"

OTTAWA November 8, 1966.

Mr. H. W. Hignett,
President,
Central Mortgage and Housing Corporation,
Montreal Road,
Ottawa, Ontario

Dear Mr. Hignett,

At the meeting of the Standing Committee on Public Accounts, November 8, 1966, it was agreed that the reports prepared by your firms of Auditors on the examination of the accounts and financial statements for the years ended December 31, 1963 and December 31, 1964, be submitted to the Standing Committee on Public Accounts.

Would you please send the above-mentioned reports to the Committee as soon as possible.

Yours truly,

J. H. Bennett,
Clerk of the Committee.

"B"

CENTRAL MORTGAGE AND HOUSING CORPORATION

Head office, Ottawa 7, Canada.

DECEMBER 1, 1966
Our File: 109-1-7

Mr. J. H. Bennett
Clerk of the Committee
Committees and Private Legislation Branch
House of Commons
Ottawa.

Dear Mr. Bennett,

I refer to your letter, dated the 8th November, in which you ask that the audit reports prepared by the Corporation's External Auditors be submitted to the Committee for the years ending the 31st December 1963 and the 31st December 1964.

You may remember that when I represented the Corporation before the Committee I explained that the Central Mortgage and Housing Corporation Act provided that "The Minister, with approval of the Governor in Council, shall appoint two Auditors to hold office for a term not exceeding two years to audit the affairs of the Corporation".

The Corporation's Board of Directors has always regarded the audit report prepared by the External Auditors as a report to the Minister, and not to the Corporation. The Board of Directors would of course accept any direction given by the Minister as a result of the Auditors' report to him. Under the circumstances the Board has felt that the Corporation should not make the report of the External Auditors available to anyone but the Minister.

As you know, the Corporation is also required by legislation to transmit to the Minister at the end of each fiscal year a statement of its accounts, signed by the President and Chief Accountant, and certified by the Auditors, together with such report as the Board may deem desirable or may be required by the Minister. A copy of the statement of accounts, so signed and certified, and a copy of the report of the Board are published in the Canada Gazette, and if Parliament is sitting are laid before Parliament, or if Parliament is not sitting are laid before Parliament within fourteen days of the commencement of the next Session. These reports were used as the basis for discussion before the Committee on the 8th November.

Under the circumstances, and in accordance with past practice, the Corporation is unable to comply with your request that the reports prepared by the External Auditors be forwarded to you.

Yours sincerely,

H. W. Hignett,
President.

"C"

OTTAWA, December 9, 1966.

Dear Mr. Nicholson:

As Chairman of the Public Accounts Committee I would appreciate receiving a copy of the audit reports prepared by the Central Mortgage and Housing Corporation's External Auditors for the years ending the 31st December 1963 and the 31st December 1964.

I understand that these reports are published in the Canada Gazette. They were the basis of discussion before our Committee on the 8th of November and we would appreciate having them to file as an appendix to the meeting of that date, thereby making our Minutes complete.

Yours sincerely,

Alfred D. Hales, M.P.

The Hon. J. R. Nicholson,
Minister of Labour,
Ottawa, Ont.

"D"

Office of the Minister

Bureau du ministre

CENTRAL MORTGAGE AND HOUSING CORPORATION

Société centrale d'hypothèques et de logement
Ottawa, Canada.

National Housing Act

Loi nationale sur l'habitation

Sir Wilfrid Laurier Building
December 29, 1966Mr. Alfred D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Canada.

Dear Mr. Hales,

In accordance with your request dated the 9th of December, I enclose herewith copies of the auditors' report to the Minister responsible for the operations of Central Mortgage and Housing Corporation for the years 1963 and 1964. Copies of these reports have been published in the Canada Gazette.

Yours sincerely,

John. R. Nicholson

"E"

CENTRAL MORTGAGE AND HOUSING CORPORATION

Financial Statements
December 31, 1963ARTHUR A. CRAWLEY, F.C.A.
of the firm
Arthur A. Crawley & Co.MAURICE SAMSON, C.A.
of the firm
Samson, Bélair, Côté, Lacroix et Associés

AUDITORS' REPORT

TO THE MINISTER RESPONSIBLE FOR

THE OPERATIONS OF THE CORPORATION:

We have examined the attached financial statements of Central Mortgage and Housing Corporation for the year ended December 31 1963 (presented with comparative figures for 1962) and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we have considered necessary in the circumstances.

In our opinion, proper books of account have been kept and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

In our opinion, according to the best of our information and the explanations given to us and as shown by the books of the Corporation, the attached financial statements are properly drawn up so as to exhibit a true and fair view of the state of the affairs of the Corporation as at December 31, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A. A. Crawley, F.C.A.
of the firm
Arthur A. Crawley & Co.

Maurice Samson, C.A.
of the firm
Samson, Bélair, Côté,
Lacroix et Associés

Ottawa, February 20, 1964

STATEMENT II

CENTRAL MORTGAGE AND HOUSING CORPORATION

STATEMENT OF NET INCOME

For the Year Ended

	December 31, 1963	December 31, 1962
LOANS UNDER THE HOUSING ACTS:		
Interest earned from borrowers.....	\$ 90,106,692	\$ 85,451,847
Interest charged by the Government of Canada.....	71,945,750	66,523,865
	\$ 18,160,942	\$ 18,927,982
FEDERAL-PROVINCIAL AGREEMENTS:		
Interest earned from Housing Authorities and Municipalities.....	4,245,734	4,001,273
Interest charged by the Government of Canada.....	4,039,840	3,726,830
	205,894	274,443
AGREEMENTS FOR SALE AND MORTGAGES:		
Interest earned from purchasers.....	5,267,462	5,413,383
Interest charged by the Government of Canada.....	1,094,206	1,084,236
	4,173,256	4,329,147
REAL ESTATE—CORPORATION OWNED:		
Rental revenue from tenants.....	8,534,023	8,094,778
Maintenance and other property expense, including \$2,199,770 interest charged by the Government of Canada.....	10,725,771	9,549,141
	(2,191,748)	(1,454,363)
APPLICATION FEES EARNED ON INSURED MORTGAGE LOANS.....	1,818,571	1,928,657
INTEREST EARNED—GOVERNMENT OF CANADA SHORT TERM SECURITIES.....	832,844	168,936
MISCELLANEOUS INCOME.....	855,931	457,783
<i>Less: ADMINISTRATIVE SALARIES AND EXPENSES.....</i>	<i>23,855,690</i>	<i>24,632,585</i>
	13,391,698	13,429,227
NET INCOME PRIOR TO INCOME TAX.....	10,463,992	11,203,353
INCOME TAX.....	5,236,000	5,615,000
Net Income, transferred to Reserve Fund.....	\$ 5,227,992	\$ 5,588,353

STATEMENT III

RESERVE FUND

	1963	1962
Balance, January 1.....	\$ 5,000,000	\$ 5,000,000
Net income for the year.....	5,227,992	5,538,358
Profits realized on sales of properties acquired without cost from the Government of Canada.....	4,887,474	4,863,315
	<u>15,115,466</u>	<u>15,451,673</u>
Excess over statutory limitation, transferred to the credit of the Receiver General....	10,115,466	10,451,673
Balance, December 31.....	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

NOTES TO FINANCIAL STATEMENTS

	1963	Accumulated December 31 1963	1962	Accumulated December 31 1962
Depreciation:				
Real Estate.....	\$ 2,089,792	\$ 20,185,981	\$ 2,130,001	\$ 19,399,403
Office buildings held for Corporation use.....	143,677	\$ 1,232,886	119,272	\$ 1,119,808
Office Furniture and Equipment.....	\$ 101,236	\$ 1,603,287	\$ 100,615	\$ 1,563,186
Administrative Salaries and Expenses include:				
Directors' Fees and Expenses.....	\$ 6,002		\$ 7,484	
Executive Salaries.....	45,000		42,500	
Legal Fees and Expenses.....	\$ 9,348		\$ 19,745	

CENTRAL MORTGAGE AND HOUSING CORPORATION
LOANS UNDER THE HOUSING ACTS

	December 31, 1963		December 31, 1962	
	Number of loans	Value	Number of loans	Value
Uninsured Loans:				
Made jointly with Lending Institutions (NHA 1944)—Corporation's share....	94,008	\$ 116,302,978	101,603	\$ 135,271,245
Homeowners (NHA 1944).....	4,722	24,288,914	5,024	26,747,952
Limited-Dividend Housing Companies.....	363	178,339,511	339	171,194,854
Rental Guarantee Contracts.....	559	63,197,963	562	65,905,644
Primary Industry Housing.....	12	3,469,092	12	3,799,257
University Housing.....	49	33,279,560	25	16,445,005
Municipal Sewage Treatment Projects.....	356	92,874,515	161	24,815,378
Insured Loans:				
Made directly by the Corporation.....	90,890	954,794,386	86,580	912,325,334
Made by agents of the Corporation.....	19,286	217,669,576	19,508	226,313,679
Accrued interest.....		8,965,267		8,127,238
	210,245	\$1,652,881,762	213,814	\$1,589,945,586

REAL ESTATE		December 31, 1963			December 31, 1962
	Dwelling units	Original book value	Accumulated depreciation	Net book value	Net book value
Constructed by the Corporation, at cost, or acquired from the Govern- ment of Canada:					
Single houses.....	6,185	\$ 42,029,097	\$ 12,027,390	\$ 30,001,707	\$ 34,147,234
Multiple dwellings.....	623	4,400,857	2,045,489	2,355,368	2,493,847
Reposessed property, at acquisition cost:					
Single houses.....	682	5,813,648	995,130	4,818,518	4,059,275
Multiple dwellings.....	4,453	34,968,861	5,078,448	29,890,413	29,085,581
Other, at cost.....		452,028	39,524	412,504	480,859
	11,943	\$ 87,664,491	\$ 20,185,981	\$ 67,478,510	\$ 70,866,796

STATEMENT V

STATEMENT IV

STATEMENT VI

LOANS AND INVESTMENTS UNDER FEDERAL-PROVINCIAL AGREEMENTS

	December 31, 1963	December 31, 1962
Rental Housing Projects.....	\$ 88,228,000	\$ 81,114,436
Land Assembly Projects.....	9,983,725	11,399,371
Advances to Municipalities repayable by instalments.....	5,528,388	5,093,379
Recoverable from Provincial Governments.....	2,042,332	1,749,585
Advances and current accounts with Municipalities and Housing Authorities.....	2,576,426	2,253,216
Accrued interest.....	102,448	113,845
	<u>\$ 108,461,319</u>	<u>\$ 101,723,832</u>

STATEMENT VII

BORROWINGS FROM THE GOVERNMENT OF CANADA

	December 31, 1962	Borrowed 1963	Repaid 1963	December 31, 1963
For Loans under the Housing Acts.....	\$1,590,386,279	\$ 131,500,000	\$ 73,745,728	\$1,648,140,551
For Loans and Investments under Federal-Provincial Agreements.....	101,571,857	8,000,000	2,179,740	107,392,117
For acquisition and construction of Real Estate.....	84,463,014		2,477,085	81,985,929
	<u>1,776,421,150</u>	<u>\$ 139,500,000</u>	<u>\$ 78,402,553</u>	<u>1,837,518,597</u>
Accrued interest.....	13,512,537			13,428,996
	<u>\$1,789,933,687</u>			<u>\$1,850,947,593</u>

ASSETS	December 31, 1963	December 31, 1962
Cash.....	\$ (71,024)	\$ 561,595
Securities issued or guaranteed by the Government of Canada, at amortized cost, including accrued interest	83,238,626	81,890,363
Mortgages arising from sales of repossessed property, including accrued interest.....	11,056,455	4,963,060
Real estate, at cost less recoveries, for properties at Elliot Lake.....	9,049,397	6,769,080
Other real estate, at lower of cost or estimated realizable value.....	12,593,391	7,848,222
	<u>\$115,866,845</u>	<u>\$102,032,320</u>
RESERVES	1963	1962
Balance, January 1.....	\$102,032,320	\$ 86,708,574
Add:		
Fees and premiums received.....	9,868,797	11,576,515
Net income from securities and other assets.....	4,451,829	3,904,324
Real estate acquired on claims.....	13,943,882	8,578,613
	<u>130,296,828</u>	<u>110,828,029</u>
Deduct:		
Claims paid and legal expenses.....	13,943,882	8,578,613
Net loss on sales of securities and real estate.....	197,833	39,696
Allowance for revaluation of real estate.....	288,268	177,400
	<u>14,429,983</u>	<u>8,795,709</u>
Balance, December 31.....	<u>\$115,866,845</u>	<u>\$102,032,320</u>

Insurance in force December 31, 1963.....	\$4,499,000,000
Claims in process for payment December 31, 1963....	\$ 1,718,360

Home Improvement Loan Insurance Fund

ASSETS		RESERVES	
	December 31, 1963		1963
Cash.....	\$ (1,244)	Balance, January 1	\$ 2,481,364
Securities issued or guaranteed by the Government of Canada, at amor- tized cost, including accrued interest	2,630,154	Add: Fees and premiums received.....	369,239
		Net income from securities and other assets	118,408
Mortgages arising from sales of repos- sessed property, including accrued interest	10,850	Recoveries on claims paid	37,049
			<u>3,006,060</u>
Real estate repossessed, at cost.....		Deduct: Claims paid and legal expenses.....	366,299
		Net loss on sales of real estate.....	1
			<u>366,300</u>
	\$ 2,639,700	Balance, December 31.....	\$ 2,639,700
			<u>238,796</u>
			\$ 2,481,364

Insurance in force December 31, 1963..... \$ 14,490,893
 Claims in process for payment December 31, 1963.... \$ 29,761

Rental Guarantee fund

	December 31, 1963		1963
Cash.....	\$ (96,911)	Balance, January 1	\$ 3,916,532
Securities issued or guaranteed by the Government of Canada, at amor- tized cost, including accrued interest	4,030,364	Add: Fees and premiums received	361,817
		Net income from securities	173,079
		(Other income.....)	20,426
	\$ 3,933,453		<u>4,478,456</u>
		Deduct: Claims paid and legal expenses.....	545,003
		Balance, December 31.....	\$ 3,933,453
Current rentals covered by guarantee December 31, 1963	\$ 14,786,770		<u>\$ 3,916,532</u>
Claims in process for payment December 31, 1963.....	\$ 8,800		
TOTAL ASSETS.....	\$122,440,058	TOTAL RESERVES	\$108,430,216

"F"

CENTRAL MORTGAGE AND HOUSING CORPORATION

Financial Statements

December 31 1964

MAURICE SAMSON, C.A.

of the firm

Samson, Bélair, Côté, Lacroix et Associés

JAMES ROSS, F.C.A.

of the firm

Price Waterhouse & Co.

CENTRAL MORTGAGE AND HOUSING CORPORATION

FINANCIAL STATEMENTS

December 31 1964

AUDITORS' REPORT

TO THE MINISTER RESPONSIBLE TO PARLIAMENT FOR
CENTRAL MORTGAGE AND HOUSING CORPORATION:

We have examined the attached financial statements of Central Mortgage and Housing Corporation for the year ended December 31 1964 and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we have considered necessary in the circumstances.

In our opinion, proper books of account have been kept and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Corporation, the attached financial statements are properly drawn up so as to exhibit a true and fair view of the state of the affairs of the Corporation as at December 31, 1964 and the results of its operations for the year ended on that date, in accordance with the generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Maurice Samson, C.A.

of the firm

Samson, Bélair, Côté,
Lacroix et Associés

James Ross, F.C.A.

of the firm

Price Waterhouse & Co.

Ottawa, February 18, 1965

STATEMENT II

CENTRAL MORTGAGE AND HOUSING CORPORATION

STATEMENT OF NET INCOME

For the Year Ended December 31, 1964
(with comparative figures for 1963)

	1964	1963
LOANS:		
Interest earned from borrowers.....	\$100,030,229	\$ 90,106,692
Interest charged by the Government of Canada.....	80,328,548	71,945,750
	\$ 19,701,681	\$ 18,160,942
FEDERAL-PROVINCIAL AGREEMENTS:		
Interest earned from Housing Authorities and Municipalities.....		
Interest charged by the Government of Canada.....	4,627,662	4,245,734
	4,384,553	4,049,840
	243,109	205,894
AGREEMENTS FOR SALE AND MORTGAGES:		
Interest earned from purchasers.....	5,118,285	5,267,462
Interest charged by the Government of Canada.....	1,106,348	1,094,206
	4,011,937	4,173,256
REAL ESTATE—CORPORATION OWNED:		
Rental revenue from tenants.....	8,702,213	8,534,023
Maintenance and other property expense, including \$2,136,908 interest charged by the Government of Canada.....	10,710,292	10,725,771
	(2,008,079)	(2,191,748)
APPLICATION FEES EARNED ON INSURED MORTGAGE LOANS	2,064,861	1,818,571
FEES EARNED FOR SERVICES TO GOVERNMENT DEPARTMENTS	592,714	603,560
INTEREST EARNED—GOVERNMENT OF CANADA SHORT TERM SECURITIES	272,249	832,844
OTHER INCOME	521,822	471,103
	25,400,294	24,074,422
Less:		
ADMINISTRATIVE SALARIES AND EXPENSES	14,599,145	13,391,698
LOSSES ON INSURED CORPORATION LOANS	154,345	218,732
NET INCOME BEFORE INCOME TAX	14,753,490	13,610,430
INCOME TAX	10,646,804	10,463,992
	5,645,000	5,236,000
Net Income, transferred to Reserve Fund	\$ 5,001,804	\$ 5,227,992

Notes:

Depreciation:

Real Estate.....	\$	2,092,064
Office Buildings held for Corporation use.....	\$	113,077
Office Furniture and Equipment.....	\$	98,964

Administrative Salaries and Expenses include:

Directors' Fees.....	\$	4,000
Directors' Expenses.....	\$	2,092
Executive Salaries.....	\$	45,000
Legal Fees and Expenses.....	\$	9,348

STATEMENT III

RESERVE FUND

For the Year Ended December 31, 1964
(with comparative figures for 1963)

	1964	1963
Balance, January 1.....	\$ 5,000,000	\$ 5,000,000
Net income for the year.....	5,001,804	5,227,992
Profits realized on sales of properties acquired without cost from the Government of Canada.....	5,007,331	4,887,474
	15,009,135	15,115,466
Income tax assessment for the years 1959 to 1963.....	1,364,285	
	13,644,850	15,115,466
Excess over statutory limitation, transferred to the credit of the Receiver General.....	8,644,850	10,115,466
Balance, December 31.....	\$ 5,000,000	\$ 5,000,000

STATEMENT IV

CENTRAL MORTGAGE AND HOUSING CORPORATION

LOANS

	1964		1963	
	Number of loans	Value	Number of loans	Value
Uninsured Loans:				
Made jointly with Lending Institutions (NHA 1944)—Corporation's share....	86,007	\$ 97,620,310	94,008	\$ 116,302,978
Homeowners (NHA 1944).....	4,363	21,494,653	4,722	24,288,914
Limited-Dividend Housing Companies.....	397	186,633,919	363	178,339,511
Rental Guarantee Contracts.....	551	60,679,019	559	63,197,963
Primary Industry Housing.....	10	2,350,012	12	3,469,092
University Housing.....	73	54,031,846	49	33,279,560
Municipal Sewage Treatment Projects.....	518	74,326,154	356	52,574,515
Insured Loans:				
Made directly by the Corporation.....	106,048	1,137,616,650	90,890	954,794,386
Made by agents of the Corporation.....	18,919	207,828,709	19,286	217,669,576
Purchased from Approved Lenders.....	314	2,954,384		
Accrued Interest.....		10,660,502		8,965,267
	217,200	\$1,856,196,158	210,245	\$1,652,881,762

STATEMENT V

REAL ESTATE

	1964			1963	
	Dwelling units	Cost	Accumulated depreciation	Net book value	Net book value
Constructed by the Corporation or acquired from the Government of Canada:					
Single houses.....	5,613	\$38,306,102	\$ 11,699,713	\$ 26,606,389	\$ 30,001,707
Multiple dwellings.....	623	4,400,857	2,168,754	2,232,103	2,355,368
Acquired as a result of default:					
Single houses.....	683	5,829,907	1,138,279	4,691,628	4,818,518
Multiple dwellings.....	4,680	36,699,627	5,995,398	30,703,689	29,890,413
Other.....		504,402	44,958	459,444	412,504
	11,599	\$ 85,740,895	\$ 21,047,642	\$ 64,693,253	\$ 67,478,510

STATEMENT VI

INVESTMENT UNDER FEDERAL-PROVINCIAL AGREEMENTS

	1964	1963
Rental Housing Projects.....	\$ 92,763,811	\$ 88,228,000
Land Assembly Projects.....	11,753,089	9,983,725
Advances to Municipalities repayable by instalments.....	5,148,453	5,528,388
Current accounts with Provincial Governments.....	1,779,992	2,042,332
Advances and current accounts with Municipalities and Housing Authorities.....	3,042,910	2,576,426
Accrued interest.....	100,035	102,448
	<u>\$ 114,588,290</u>	<u>\$ 108,461,319</u>

STATEMENT VII

BORROWINGS FROM THE GOVERNMENT OF CANADA

	December 31, 1963	Borrowed 1964	Repaid 1964	December 31, 1964
For Loans.....	\$1,648,140,551	\$ 281,500,000	\$ 80,960,864	\$1,848,679,687
For Investment under Federal-Provincial Agreements.....	107,392,117	8,500,000	3,333,245	112,558,872
For Real Estate.....	81,985,929		3,680,049	78,305,880
	<u>1,837,518,597</u>	<u>\$ 290,000,000</u>	<u>\$ 87,954,158</u>	<u>2,039,564,439</u>
Accrued interest.....	13,428,996			14,417,197
	<u>\$1,850,947,593</u>			<u>\$2,053,981,636</u>

Insurance in force December 31, 1964.....	\$4,934,000,000
Claims in process for payment December 31, 1964....	\$ 2,012,000

Home Improvement Loan Insurance Fund

ASSETS		RESERVES	
1964	1963	1964	1963
Cash.....	\$ 30,064	\$ (1,244)	\$ 2,481,364
Securities issued or guaranteed by the Government of Canada, at amortized cost, including \$37,085 accrued interest.....	2,686,903	2,630,154	369,239
Mortgages arising from sales of real estate, including \$62 accrued interest.....	16,785	10,850	117,766
Real estate, at cost.....	30,908		37,049
		3,180,653	3,006,144
		Deduct:	
		Claims paid and legal expenses.....	366,299
		Loss on operation and disposal of real estate.....	85
			366,384
		Balance, December 31.....	\$ 2,639,760
Insurance in force December 31, 1964.....		\$ 15,863,000	
Claims in process for payment December 31, 1964....		\$ 40,000	

Rental Guarantee Fund

ASSETS		RESERVES	
1964	1963	1964	1963
Cash.....	\$ 31,189	\$ (96,911)	\$ 3,916,532
Securities issued or guaranteed by the Government of Canada, at amortized cost, including \$52,303 accrued interest.....	3,870,240	4,030,364	361,817
			179,681
			20,426
		4,487,047	4,478,456
		Deduct:	
		Claims paid and legal expenses.....	545,003
		Balance, December 31.....	\$ 3,933,453
Current rentals covered by guarantee December 31, 1964		\$ 14,630,000	
Claims in process for payment December 31, 1964.....		\$ Nil	
		TOTAL RESERVES.....	\$122,440,058
TOTAL ASSETS.....	\$137,272,434	\$122,440,058	

APPENDIX "21"

DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS
OTTAWA, CANADA

January 13, 1967.

Mr. A.D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
OTTAWA, Ontario.

Dear Mr. Hales:

We have read, with interest, the 8th report of your committee and would like to thank you for constructive comments made. In accordance with the desire of the committee for appropriate departmental comment, we refer below to those items on which we think some further observations might be offered. In doing so, we shall use the reference numbers given in the Votes and Proceedings of the House for November 3rd.

4. Repairs and Alterations to CCG ships

The system of handling extra costs within the Shipbuilding Branch, i.e. to establish, each year, chargeout rates which include fixed overhead and 10 per cent profit in individual repair establishments, appears to the Department to provide the degree of financial control the committee has in mind. This control is administered by field supervisors who negotiate the number of man hours and cost of material to be used in each extra work order.

The system now in use has been developed by representatives of the Department who have had experience with cost plus, target price and firm price contracts and they are of the opinion that although there are inherent difficulties in contracting for ship repairs, this method is the best of the various types of contract arrangement available for this specialized kind of work. We believe that the great problem with ship repair, and one for which no solution has been found, is its unpredictability and the form of the contract can contribute only partly in minimizing repair costs.

5. Defalcation at Gander International Airport

Unfortunately auditing of accounts does not guarantee the prevention or detection of fraud and a perfect system of internal control has never been devised. Following the defalcation at Gander, improvements were made in the internal control procedures. We believe the opportunities for misappropriation have been minimized but too many cases of embezzlement have taken place in organizations with seemingly effective internal control procedures for us to state categorically that fraud cannot take place.

6. Cost of Salvaging Sunken Vessel

The Department intends to include the necessary legislation in amendments to the Canada Shipping Act which are being prepared for government consideration.

7. *Cost of Abandoned Design Plans for Ferry Vessel*

Consideration has been given by the Department to the suggestion that CNR should assume responsibility for procurement of ferry vessels. The conclusion has been reached that this would be uneconomical because it would require the establishment of a sizeable CNR organization which would specialize in procurement of vessels without at the same time, relieving the Department of the need for a technically competent Shipbuilding Branch. It should be mentioned that the procurement of ferry vessels is quite different from the acquisition of rolling stock. Railway cars are standardized whereas ferry vessels are individually designed to meet the particular requirements of the service for which they are needed and each one is, in a sense, unique.

Everything possible is done to ensure that agreement on a design is reached before architects are asked to proceed with preparation of plans. Nevertheless, the Department recognizes that changing conditions sometimes make later alterations necessary and there is then the difficult choice between acknowledging the new requirements as being important enough to justify the additional cost of making changes on the one hand; or proceeding on the basis of the original design, recognizing that it may not meet the new conditions as well as it could or should.

The Department agrees that Treasury Board should have all the necessary facts when it is being requested to approve contracts and follows this course. In addition to the submissions themselves, departmental files are available to Board staff, who frequently examine detailed aspects of submissions which are being considered; frequent discussions with this staff take place as well.

8. *Purchase & Conversion of Ferry Vessel*

It is unfortunate that the figures which appeared in the Auditor General's report with regard to this item could lead the committee to conclude that here was a greater profit margin in this transaction than was actually the case. The fact is that the purchase price, before conversion, of \$1,513,000 paid by the government included a profit to the shipyard of \$130,200 or 9.4 per cent on cost. We do not agree with the conclusion of the committee in this regard. We believe that the evidence indicates that there was no special discrimination displayed and that the Department was able to obtain a vessel for a total cost of about \$4,100,000 which, if built new, would have cost in the order of \$10,000,000 and which could not have been obtained in any other fashion within the same period of time.

9. *Cost of Faulty Planning in Ferry Design*

As the committee suggests, the Department will attempt, insofar as is possible, to see that basic data is completely verified before it is placed in the hands of architects.

10. *Cost of Dead Freight*

Action has been taken so that dead freight claims are billed to the department concerned.

Yours sincerely,

J. R. Baldwin,
Deputy Minister.

APPENDIX "22" (a)

October 17th, 1966.

Dear Mr. Sharp:

When the Public Accounts Committee presented its Third Report 1966 to the House on June 28th last I sent you a copy of this report because it contained five important Committee recommendations (paragraph 15) relating to the Office of the Auditor General and a recommendation concerning the status of the Committee itself (paragraph 17).

I now enclose a further copy of this report. You will note that under paragraph 10(2) the Committee asked the Minister of the department concerned to advise me and the Auditor General within three months as to what action has been taken or is to be taken on its recommendations. The three month period expired on September 28th last.

As the Committee will be continuing its meetings during the week of October 24th, I should be glad if you could advise me what action has been taken or is to be taken on Committee recommendations (1), (2), (3) and (4) set out in paragraph 15 of the Third Report 1966 and the recommendations made concerning the status of the Committee in paragraph 17. As requested by the Committee, a copy of your reply should be sent to the Auditor General.

Yours sincerely,

Alfred D. Hales, M.P.
Chairman,
Public Accounts Committee.

Encl.

The Hon. Mitchell Sharp,
Minister of Finance,
OTTAWA, Ont.

APPENDIX "22" (b)

OTTAWA, November 29, 1966.

Mr. A. D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

Dear Mr. Hales:

I have your letter of October 17, 1966, enquiring as to what action has been taken, or is to be taken, on the Public Accounts Committee's recommendations (1), (2), (3) and (4) set out in paragraph 15 and the recommendation set out in paragraph 17 of the Committee's Third Report. I propose to deal in this letter with the recommendations in 15(2).

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial

Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;

- (b) that in cases where other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government.

I have considered, with my colleagues chiefly concerned, the position with respect to those Crown corporations that are not audited by the Auditor General, and, although I recognize the desire of the Public Accounts Committee to have the accounts of these bodies audited by an official who audits the accounts of government departments, I have concluded that the decision taken after careful consideration of all the factors involved, that these bodies should be audited by public accountants and not by the Auditor General, is the correct one and should not be changed. I should like to set out briefly the considerations that have entered into this conclusion.

By the very fact of incorporation, these Crown corporations are intended to have a large measure of responsibility for the performance of their statutory functions and to be able to function more or less as other companies do, and in several instances to compete with them. They are intended to be more independent than departments which are held accountable through Ministers to Parliament for day to day administration.

Indeed, because they are commercially oriented and are intended to operate at arm's length from and without the day to day governmental and parliamentary surveillance that is the case with government departments, it would seem proper that these Crown corporations should, as a matter of policy, be audited by public accounting firms that would treat and serve them in the same way as they would treat and serve any other commercial corporation. Such a policy will best ensure that the arm's length relationship and the operational independence and freedom of these corporations conferred on them by Parliament are adequately safeguarded, and that the corporations have the use of the same kind of commercial accounting advice from their auditors that privately owned companies have. The practice of including the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee and enables that body to examine the reports and to call the presidents and other officers, and, if desired, the auditors before it.

The foregoing has led me to the conclusion that no change should be made in our present practices. This view is reinforced by the policy followed in the United Kingdom where, after careful consideration, the decision was taken and was subsequently confirmed after re-examination, that the accounts of the nationalized industries should be audited by public accountants and not by the Comptroller and Auditor General. You will find the considerations that led to this conclusion set out in paragraphs 29 and 32 of the Report from the Select Committee on Nationalised Industries, House of Commons Paper No. 235 of July 23, 1953.

Yours sincerely,

Mitchell Sharp,

APPENDIX "22" (c)

OTTAWA 4, January 26, 1967.

Mr. A. D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

Dear Mr. Hales:

In my letter of November 29, in response to your letter of October 17, I dealt with the recommendation of the Public Accounts Committee that the Auditor General be appointed the sole auditor or a joint auditor of each Crown corporation. In this letter I propose to deal with the recommendations (1), (3) and (4) set out in paragraph 15 and the recommendation in paragraph 17 of the Committee's Third Report.

With reference to the recommendation in paragraph 15(1), I agree that the office of the Auditor General of Canada should be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. Indeed, in the Financial Administration Act Parliament has sought to ensure that the Auditor General has the utmost in personal independence by providing that his salary is not dependent on annual appropriations, but is a statutory charge on the Consolidated Revenue Fund and by providing that he may be dismissed only on the joint address of both Houses of Parliament. However, a distinction has always been made between the Auditor General's personal independence and the status of the officers and employees of his office who are civil servants and subject to the Civil Service Act.

The view reflected in the Consolidated Revenue and Audit Act, and confirmed in the Financial Administration Act, has been that employees in the office of the Auditor General should be appointed by the body that has been established by Parliament to ensure the application of the merit principle. However, as you know, new legislation governing employment in the Public Service is being considered currently by a Special Joint Committee of the Senate and the House of Commons which will permit delegation of staffing functions to departments and agencies, including the Auditor General, if the Public Service Commission is satisfied that the office or agency has the necessary competence. It would seem to me to be entirely appropriate for you to convey the views of the Public Accounts Committee to the Special Joint Committee for its consideration when dealing with the new legislation. While differing views on the matter may be held, the new Act would appear to permit adequate powers of delegation by the Public Service Commission to the Auditor General in the field of selection and appointment.

In paragraph 15 (3), the Committee recommends that the Financial Administration Act be amended to provide that the receipts and disbursements of the office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts and that such person should report thereon to the House of Commons. I know of no precedent

for the proposal that a Committee of the House should be given the responsibility for making the nomination that is here proposed.

In considering this recommendation of the Committee, I have noted that, in accordance with the legislation of Parliament, the appointment of two officers to act as servants of Parliament—the Auditor General and the Clerk of the House of Commons—are made by the Executive and not by the Speaker or Parliament. I should think that the nomination by the Treasury Board of a person to examine the receipts and disbursements of the Auditor General's office and to certify to the House of Commons in accordance with the outcome of his examination is wholly in accordance with these precedents. Moreover, it must be recognized that the government accepts some responsibility in regard to the Auditor General's expenditures as it must recommend them to the House of Commons. Accordingly, I do not believe any change should be made in the law.

The Committee recommends in paragraph 15 (4) of its Report that the Financial Administration Act be amended to provide that the Auditor General be paid a salary not less than the highest amount being paid to a senior deputy minister in the Public Service of Canada. As the Committee has noted, the salaries paid to deputy ministers and other senior officers of the Public Service were increased effective December 1, 1965. To relate the salary of the Auditor General to that of a group of senior officers whose salaries are determined by the Governor in Council would be tantamount to transferring from Parliament to the Governor in Council the right to set the Auditor General's salary. Bearing in mind the nature of the Auditor General's office, in my view there is merit in having the legislation continue to specify the amount of salary rather than have it to be determined in relation to that of a group of senior executive officers.

In paragraph 17, the Committee states its belief that control of public expenditure of the size and complexity taking place in Canada today requires a committee established by statute and recommends that legislation of this type be introduced into the House.

I have looked into the Australian arrangement to which the Committee refers in paragraph 16 of its Report and have found that it is a Joint Committee of the Senate and House of Representatives and not a committee solely of the House of Representatives. Under such circumstances, legislation may be necessary, but bearing in mind the traditional role of the House in the field of public expenditure, I do not believe that such an arrangement would be desirable in this country. I believe that the appointment by the House of Commons using its existing powers of a committee on Public Accounts would provide that body with all the powers that could be conferred upon it by legislation, while yet retaining a desirable flexibility that would not be present in a committee appointed under legislation.

Yours sincerely,

Mitchell Sharp

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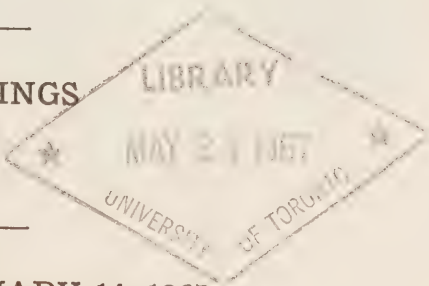
1966-67

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

PROCEEDINGS

No. 32



TUESDAY, FEBRUARY 14, 1967
THURSDAY, FEBRUARY 16, 1967
THURSDAY, FEBRUARY 23, 1967

Public Accounts, Volumes I, II and III (1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

INCLUDING TWELFTH, THIRTEENTH AND FOURTEENTH
REPORTS TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Southam,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Tardif,
Mr. Cameron	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Dionne,	Mr. Noble,	Mr. Tremblay,
Mr. Flemming,	Mr. Racine,	Mr. Tucker,
Mr. Forbes,	Mr. Schreyer,	Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

REPORTS TO THE HOUSE

THURSDAY, February 9, 1967.

The Standing Committee on Public Accounts has the honour to present its

TWELFTH REPORT

1. Your Committee held meetings on November 8 and November 17, 1966 in the course of which the following officers were in attendance:

From the National Harbours Board:

Mr. H. A. Mann, Chairman
 Mr. L. R. Talbot, Vice-Chairman
 Mr. E. J. Alton, Member
 Mr. J. E. Lloyd, Member
 Mr. T. M. Bryson, Senior Adviser
 Mr. L. R. Stratton, Chief Engineer
 Mr. R. Saint Jean, Secretary
 Mr. J. B. Phair, Chief Treasury Officer

From the Department of Justice:

Mr. E. A. Driedger, Deputy Minister
 Mr. R. Tassé, Superintendent of Bankruptcy
 Mr. J. A. Finlayson, Assistant Superintendent of Bankruptcy

And from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
 Mr. A. B. Strokes, Audit Director
 Mr. C. F. Gilhooly, Audit Director
 Mr. F. A. Matthews, Assistant Audit Director
 Mr. J. M. Laroche, Assistant Audit Director

2. The following is a report on the work done by your Committee at these meetings.

3. In the course of its meetings your Committee gave consideration to:
- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
 - (b) The following paragraphs in the Reports of the Auditor General:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Crown Corporations—		
National Harbours Board	153	203
Comments on Expenditure and		
Revenue Transactions—		
Department of Justice		69
		70

NATIONAL HARBOURS BOARD

4. *Reconstitution of financial structure*

The Committee reviewed the 1963 and 1964 accounts of the National Harbours Board and discussed its operations with the Chairman, Vice-Chairman and Members of the Board. In the course of this discussion the Committee took note of the comments and observations made by the Auditor General in his 1964 and 1965 Reports to the House which include the accounts of the Board under review.

In reviewing the 1964 accounts dealt with by the Auditor General in paragraph 203 of his 1965 Report to the House, the Committee noted that the Crown's equity at December 31, 1964 totalled \$493,406,000 and that the figure included loans and advances by Canada to the Board of \$320,094,000 and interest in arrears on loans and advances of \$85,204,000. It also noted that the accumulated deficit of the Board at that date totaled \$82,513,000.

The Committee also noted that, although \$120,000,000 had been written off to Net Debt in Canada's books, advances and unpaid interest were, to the extent of \$199,833,000 at March 31, 1965, still included in Loans and Investments in Crown Corporations shown as Assets on the Statement of Assets and Liabilities of Canada notwithstanding the obvious inability of the Board to repay such sums to Canada.

The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

DEPARTMENT OF JUSTICE

5. *Living allowances to federally-appointed judges*

The Committee discussed with the Deputy Minister of Justice its 1963 recommendation, reiterated in its Fourth Report 1964, that if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought and the Judges Act amended accordingly.

The Deputy Minister of Justice outlined the considerations involved in the practice followed in the past and stated that he felt that because of the discussion that has taken place there should be a study to see if some change can be made.

6. *Federal losses from bankruptcies*

On July 30, 1965 a commission appointed by the Province of Quebec to determine the effect on the revenue of the Province of bankruptcies between 1959 and 1964 estimated that the Province had lost approximately \$5.5 million in revenues during the period as a result of bankruptcies, some of which involved fraud and dishonesty. In his 1965 Report to the House the Auditor General stated that no amount had yet been established to indicate the extent to which federal revenues had been lost as a result of these irregularities.

The Committee invited the Superintendent of Bankruptcy to comment on the foregoing and received a detailed and helpful account from him outlining the present situation surrounding the administration of the Bankruptcy Act as amended and also of the work of his Office.

In the course of this discussion the Committee was informed by the Superintendent that to the best of his knowledge no amount had been determined or established at the federal level which would indicate the extent to which federal revenues had been lost as a result of fraudulent bankruptcies which had taken place over the past several years.

The Committee was surprised to learn that the federal authorities had no knowledge of the revenues lost as a result of these bankruptcies. The Committee requests that these figures be obtained and provided to the Public Accounts Committee.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (Nos. 25 and 26) is appended.

Respectfully submitted,
ALFRED D. HALES,
Chairman.

WEDNESDAY, March 1, 1967.

The Standing Committee on Public Accounts has the honour to present its

THIRTEENTH REPORT

1. Your Committee held meetings on November 22 and November 23, 1966 in the course of which the following officers were in attendance:

from the Department of Manpower and Immigration:

Mr. Tom Kent, Deputy Minister,
Mr. S. W. Kaiser, Director, Financial and
Administrative Services,
Mr. A. D. MacDonald, Acting Director,
Employment Stabilization Branch;

from the Treasury Board:

Dr. George F. Davidson, Secretary,
Mr. C. J. Mackenzie, Assistant Secretary,
Program Branch,
Mr. D. R. Yeomans, Assistant Secretary,
Management Improvement Branch,
Mr. J. G. Glashan,
Mr. J. A. Driscoll;

and from the Auditor General's office:

Mr. A. M. Henderson, Auditor General,
Mr. George Long, Assistant Auditor General,
Mr. C. F. Gilhooly, Audit Director,
Mr. Edward Cooke, Audit Director,

Mr. H. E. Hayes, Audit Director,
 Mr. J. M. Laroche, Assistant Audit Director,
 Mr. I. A. M. Buzza.

2. The following is a report on the work done by your Committee at these meetings.

3. In the course of its meetings your Committee gave consideration to:
- (a) paragraph 71 of the Auditor General's Report for the year ended March 31, 1965 Municipal winter works incentive program;
 - (b) the form and content of the Estimates, with particular reference to the Revised Vote Pattern introduced in 1964-65, In Interim Supply and use of the Finance Contingencies Vote.

DEPARTMENT OF MANPOWER AND IMMIGRATION

4. Municipal winter works incentive program

(pp. 1229-47; 1248)

In his 1965 Report to the House the Auditor General dealt in paragraph 71 with the need for a more specific spelling out of the terms of the agreements to set straight questionable practices which had developed in the administration of this program. After listing eight of these questionable practices, the Auditor General stated that the working paper files of the provincial auditors carrying out detailed audits of claims had revealed instances of fraudulent and irregular practices being followed.

The Committee discussed these practices with the Auditor General and the Deputy Minister and officials of the Department of Manpower and Immigration and was informed that while the majority of these unsatisfactory practices continued in claims received during the fiscal year 1965-66, there had been a substantial improvement in the situation since April 1, 1966.

Members of the Committee expressed considerable concern at the type of questionable practices which had developed in the administration of the winter works incentive program. It feels that there should be a closer liaison between the Department of Manpower and Immigration and the auditors examining the winter works expenditures for the provinces. The Committee has requested the Auditor General to continue to watch the situation closely and advise the House thereon in due course.

TREASURY BOARD

5. Parliamentary control of expenditure

(pp. 1251-1280)

In dealing with this subject in paragraph 9 of his 1965 Report, the Auditor General advised the House that the vote pattern actually used in the Main Estimates 1964-65 differed in certain instances from the pattern which had been submitted to and approved by this Committee in 1964. Details of these differences and examples of transfers made possible by the revised vote pattern were set forth in paragraph 51 of the same Report.

Although the Committee has not yet completed its examination of the details contained in these paragraphs on which it wishes to question the Auditor General and the Secretary of the Treasury Board further, the Committee did request the Auditor General to make a statement on the form and content of the Estimates which he presented on November 23rd.

The Committee discussed this statement on that date and questioned the Secretary of the Treasury Board who provided the members with additional helpful information on the subject. This discussion brought out clearly both the significance and the importance of Parliament's control of public funds and the need for continued vigilance on the part of all Members of the House to ensure that the control is effectively and properly exercised.

The Committee is of the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal 1/12 for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submits the following recommendations designed to strengthen parliamentary control of public expenditures in the future:

1. (a) that the business of the House be so arranged that consideration of the annual main estimates by the various committees of the House and by the House itself be completed within three months of the tabling of these estimates and

- (b) that when consideration of all or part of any year's main estimates has not been completed by the commencement of the fiscal year to which they relate, thus making interim supply a necessity, the first interim supply bill include provision for a period of one, two or three months up to a date three months from the end of the month in which the estimates were tabled.

2. that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g., salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

6. Standing Committee on Public Accounts

In the process of drafting this Thirteenth Report of the Committee at meetings held in camera, considerable attention was given to the subject of parliamentary control of expenditure. In the course of the discussions, reference was made to the present practice of having the estimates of individual departments considered simultaneously by several committees of the House and there

was general agreement that this procedure represented a worthwhile improvement and should be continued. However, it was also generally agreed that the committee system of considering departmental estimates could be made even more effective if delays which sometimes occur before committees are appointed at the beginning of each session could be eliminated. It was felt that consideration might well be given to the establishment of parliamentary committees at the commencement of each Parliament which would continue to exist for the duration of that Parliament, rather than for the duration of each session. This would mean that each year's estimates could be referred to these committees as soon as they were tabled and the committees would be able to commence their work sooner than is now ordinarily the case.

It was generally agreed that appointment for the duration of the Parliament rather than of the session would also enable the Public Accounts Committee to carry out its work more expeditiously in that the Public Accounts and the Auditor General's Report could be referred to it without delay after they are tabled and the Committee could commence its work sooner than is usually now possible. The work of the Committee would thus be more current than it now is.

It is the understanding of the members of the Committee that in Australia the Public Accounts Committee is established at the beginning of the first session of each Parliament and continues to function for the duration of the Parliament rather than for the duration of the session only.

The Committee recommended in its Third Report 1966, presented to the House on June 28, 1966, that the Public Accounts Committee be established by statute but as this recommendation has not yet been adopted it now recommends that as soon as possible after commencement of the second session of the twenty-seventh Parliament, the Standing Committee on Public Accounts be established as a committee to remain in existence until dissolution of the twenty-seventh Parliament.

The Committee further recommends that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

* * *

The marginal notes refer to the pertinent pages in the Committee's Minutes of Proceedings and Evidence.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 27 and 28) is appended.

Respectfully submitted,
ALFRED D. HALES,
Chairman.

THURSDAY, March 2, 1967.

The Standing Committee on Public Accounts has the honour to present its

FOURTEENTH REPORT

1. Your Committee held meetings on November 24 and November 29, 1966 in the course of which the following officers were in attendance:

from the Unemployment Insurance Commission:
Colonel Lavel Fortier, Chief Commissioner

Mr. M. D. Fidler, Director of Technical Services
Mr. D. C. Cuddy, Chief, Claims Operations Division

from the Department of National Health and Welfare:

Dr. J. W. Willard, Deputy Minister of Welfare
Dr. J. N. Crawford, Deputy Minister of Health
Dr. G. E. Wride, Director, Health Grants

from the Department of National Revenue (Taxation Division):

Mr. D. H. Sheppard, Deputy Minister
Mr. E. S. MacLachy, Director, Legal Branch
Mr. J. Delavignette, Registrar-Examiner of Charitable Organizations.
Mr. G. F. Barclay, Superintendent, District Office, Administration

and from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General
Mr. C. F. Gilhooly, Audit Director
Mr. J. M. Laroche, Assistant Audit Director
Mr. E. W. Murphy, Assistant Audit Director

2. The following is a report on the work done by your Committee at these meetings.

3. In the course of its meetings you Committee gave consideration to:

- (a) the action, or lack of action, by departments as a result of previous recommendations made by the Committee;
- (b) the Auditor General's Report for the year ended March 31, 1965, as follows:

Unemployment Insurance Commission—	paragraphs 72 and 142(7); item 11 of Appendix 1
Department of National Health and Welfare—	paragraphs 87 and 88; item 34 of Appendix 1
Department of National Revenue (Taxation Division)	paragraphs 101, 102, and 169

UNEMPLOYMENT INSURANCE COMMISSION

4. *Electronic data processing system abandoned* (pp. 1293-1303)

The Committee considered paragraph 72 of the 1965 Report of the Auditor General to the House dealing with the failure of an electronic data processing system due to faulty planning by the Commission and the manufacturer.

Members of the Committee questioned the Chief Commissioner and his officials concerning the system and the fact that no claim had been made by the Commission against the manufacturer for any part of the operating costs of \$200,000. The Chief Commissioner stated that he did not believe a basis existed on which any claim could have been made against the manufacturer.

After hearing the evidence the Committee is of the opinion that an effort should have been made by the Commission to obtain at least partial compensation from the manufacturer within the terms of his guarantee to the Commission.

5. *Unemployment Insurance Fund and its administration*
(pp. 1303-1305)

In its Fourth Report 1964, the Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (tabled on December 20, 1962) be completed as soon as possible and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

The Chief Commissioner advised the Committee that the Minister of Labour has stated that it is the Government's intention to bring legislation before the House in due course covering the Report of the Committee of Inquiry. With respect to the second or additional recommendation made by the Committee, the members were pleased to learn that pending the passing of legislation with regard to the preparation of annual financial statements for the Unemployment Insurance Fund the statements presently prepared by the Unemployment Insurance Commission are examined and reported upon to the House by the Auditor General and appear in the Public Accounts of Canada.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

6. *Unemployment Assistance*
(pp. 1306-1314)

In its Fourth Report 1963 presented to the House on December 19, 1963, the Committee stated that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. The Committee believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

The Committee was pleased to learn from the Deputy Minister of Welfare that a number of the matters pertaining to the administration of the Unemployment Assistance Act have been corrected although the ambiguities contained in the legislation and the overlapping and duplication in the various welfare Acts still give rise to difficulties.

The Deputy Minister discussed the Canada Assistance Plan enacted by Parliament in 1966 which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach

to social assistance in overcoming administrative weaknesses previously criticized. The Committee has asked the Auditor General to follow up this matter and report further to the House thereon in due course.

7. Application of Canadian Hospital Accounting Manual to federal hospitals
(p. 1318)

The Committee noted that accounting in federal hospitals generally was not in accordance with the Canadian Hospital Accounting Manual which provides a basic accounting system for purposes of the Hospital Insurance and Diagnostic Services Act.

The Deputy Minister of Health informed the Committee that a financial management project team is presently studying this matter and it is expected that their recommendations will be implemented in 1967 or 1968. The Committee has asked the Auditor General to follow up this matter and report further to the House thereon in due course.

8. Hospital construction grants
(pp. 1319-1321)

In its Eighth Report 1964 presented to the House on December 7, 1964, the Committee stated that it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period of years basis with parliamentary control being exercised over the total commitments that may be entered into. In the course of discussing this outstanding recommendation with officials of the Department, the Deputy Minister of Health drew the attention of the Committee to recent announcements indicating that the Hospital Construction grants may disappear under the recommendations made by the Tax Structure Committee but that at the request of the Department, because it had had to forecast in advance, an extension was granted for an additional year and the Hospital Construction grants will now remain in effect until 1970. As it appears likely that other arrangements will be made for hospital construction at that time the Committee wishes to withdraw its 1964 recommendation which cannot be implemented under the present circumstances.

DEPARTMENT OF NATIONAL REVENUE (TAXATION DIVISION)

9. Charitable donations
(pp. 1326-1338)

The Committee considered paragraph 101 of the 1965 Report of the Auditor General to the House dealing with charitable donations. The audit note outlined problems faced by the Taxation Division in determining what are charitable organizations within the meaning of the Income Tax Act and checking on deductions claimed by taxpayers. It was suggested that consideration should be given to the setting up of adequate controls over the many charitable organizations now recognized.

The Committee was pleased to note that shortly after the tabling of the 1965 Report of the Auditor General in February 1966, the Minister of Finance in his

Budget Speech of March 29, 1966 proposed a resolution to deal with the several problems outlined in this audit note and to make them effective with the 1967 taxation year. The Committee also noted that detailed regulations were recently announced by the Minister of National Revenue spelling out the precise procedure to be followed by registered Canadian charitable organizations with effect from January 1, 1967.

At the invitation of the Committee, the Deputy Minister of National Revenue (Taxation) described the new regulations and outlined the steps to be followed by charitable organizations in Canada wishing to be registered thereunder. The Deputy Minister stated that copies of the new regulations were now available at offices of the Taxation Division and that they have been published in the Canada Gazette.

The Deputy Minister advised the Committee that although the Division has the names of 1,200 charitable organizations on its present headquarters list, there are 40,000 such organizations altogether in Canada. Consequently, the Division was relying on newspaper publicity and various organizations with which it deals to disseminate this information.

(p. 1335)

Members of the Committee stated that while such publicity might be sufficient for those charitable organizations not presently on the headquarters list, they felt the Division had at least a responsibility to send the regulations and attendant forms to the 1,200 organizations presently on the headquarters list.

The Committee considers that this is a service to which taxpayers are entitled and it recommends that the Division despatch copies of the regulations and attendant forms to each of the organizations whose names and addresses are presently recorded on the headquarters list.

10. Remission of income tax on per diem allowances

(pp. 1338-1340)

The Auditor General drew the attention of the Committee to a misstatement of fact in submissions made to the Governor in Council although the misstatement of fact in no way affected the validity of the remissions granted. It is, however, a matter of concern when the Governor in Council is provided with incorrect information which may have a bearing on the decision to grant remissions requested by a department. No amending Orders in Council had been issued in this instance.

The Committee is of the opinion that it is highly important that whenever a situation of this kind is encountered, the matter be brought to the attention of the Ministers concerned and the Clerk of the Privy Council and that amending Orders in Council issue without delay.

11. Accounts receivable—Department of National Revenue

(pp. 1340-1356)

The Committee considered the information in paragraph 169 of the 1965 Report of the Auditor General to the House in which the accounts receivable of the Department of National Revenue are summarized and details shown with respect to accounts not collected.

The Committee considered other means of reporting this type of information—either the Department itself including it in its departmental report to the House or through the medium of the Public Accounts. Members of the Committee, however, expressed a preference for a continuation of the present practice whereby this detail is shown by the Auditor General in his Report to the House and the Committee requested that he continue to provide this information in his future Reports to the House.

12. *Committee recommendations*

In accordance with the undertaking given in its Tenth Report 1966-67, presented to the House on February 7, 1967, the Committee includes herein a list of the items brought to the attention of the House which had not been implemented at March 31, 1965; a list of the items which have since been acted upon; and a list of the additional items brought to the attention of the House during the current session:

Recommendations and Observations by the
Standing Committee on Public Accounts
not yet implemented or dealt with by Executive action
as at March 31, 1965

Fourth Report 1963—presented to the House on December 19, 1963

1. Second class mail
2. Departmental operating activities
3. Internal financial control
4. Unemployment Assistance

Fourth Report 1964—presented to the House on July 28, 1964

5. Findings of the Royal Commission on Government Organization
6. The form and content of the Estimates
7. Living allowances to federally-appointed judges
8. Governor General's special warrants
9. Remission of sales tax on oleomargarine
10. Cost of gasoline used in departmental vehicles at Ottawa
11. Unemployment Insurance Fund and its administration
12. Board of Grain Commissioners
13. Office of the Auditor General

Fifth Report 1964—presented to the House on August 5, 1964

14. Canadian Broadcasting Corporation—Report of the Royal Commission on Government Organization

Sixth Report 1964—presented to the House on October 20, 1964

15. National Defence administrative regulations and practices
16. Unauthorized use of Crown-owned vehicles
17. Financial assistance to Town of Oromocto
18. Educational costs incurred by the Department of National Defence
19. Assistance to provinces by the Armed Forces in civil emergencies
20. Pension awards effective at early age
21. Discretionary awards of service pensions
22. Overlapping of pension benefits
23. Advances to the Exchange Fund Account

24. Errors in Public Service Superannuation Account pension and contribution calculations

25. Pension increased by payment of two salaries

26. Reciprocal transfer agreements for superannuation benefits

27. Interest charges on loans to the National Capital Commission

28. Accounts receivable

29. Indirect compensation to chartered banks

30. The Canada Council

Seventh Report 1964—presented to the House on December 7, 1964

31 to 33. Surplus assets disposal

Eighth Report 1964—presented to the House on December 7, 1964

34. Hospital construction grants

35. Awards under the Pension Act

36. War veterans allowances

37. Amendments to the Customs Act and the Excise Tax Act

38. General election expenditure

39. Accounts not examined by the Auditor General

40. Audit of the Office of the Auditor General

Since March 31, 1965 the following items included in the above list have been dealt with:

9. Remission of sales tax on oleomargarine

10. Cost of gasoline used in departmental vehicles at Ottawa

12. Board of Grain Commissioners

18. Educational costs incurred by the Department of National Defence

22. Overlapping of pension benefits

25. Pension increased by payment of two salaries

26. Reciprocal transfer agreements for superannuation benefits

31 to 33. Surplus assets disposal (partially dealt with)

Since June 28, 1966 the Committee has brought the following additional items to the attention of the House:

Third Report 1966—presented to the House on June 28, 1966

The St. Lawrence Seaway Authority

Salary of the Auditor General

Separate Act of Parliament

Standing Committee on Public Accounts

Fourth Report 1966—presented to the House on October 17, 1966

Charges for Post Office lock boxes and bag service

Post Office Savings Bank

Fifth Report 1966—presented to the House on October 19, 1966

Possible loss of revenue when goods lose tax-exempt status

Drawback paid on goods destroyed after release from Customs

Tax exemptions for particular groups

Customs and Excise laboratory

Refund of duty paid on goods diverted to use other than that for which they were imported

Seventh Report 1966—presented to the House on October 26, 1966

Loans and advances representing grants to Crown corporation
Advances to Canadian Corporation for the 1967 World Exhibition
Prairie Farm Emergency Fund

Eighth Report 1966—presented to the House on November 3, 1966

Repairs and alterations to Canadian coast guard ships
Cost of salvaging sunken vessel
Cost of Abandoned design plans for ferry vessel
Cost of faulty planning in ferry design
Internal audit group—Department of Northern Affairs and National Resources
Inadequate control of stores at northern locations

Tenth Report 1966-67—presented to the House on February 7, 1967

Department of External Affairs missions abroad
Salaries and wages paid for work not performed
Surplus in Defence Production Revolving Fund
Transportation on leave allowance
Proposed removal allowance

Eleventh Report 1966-67—presented to the House on February 7, 1967

Central Mortgage and Housing Corporation—Appointment of auditors
Central Mortgage and Housing Corporation—Reports of the auditors
Central Mortgage and Housing Corporation—Securities held by Mortgage Insurance Fund
Central Mortgage and Housing Corporation—Statement of Net Income

Twelfth Report 1966-76 presented to the House on February 9, 1967

Reconstitution of financial structure of the National Harbours Board
Federal losses from bankruptcies

Thirteenth Report 1966-67—presented to the House on March 1, 1967

Municipal winter works incentive program
Parliamentary control of public expenditure

Fourteenth Report 1966-67—presented to the House on March 2, 1967

Application of Canadian Hospital Accounting Manual to federal hospitals
Charitable donations

* * *

The marginal notes refer to the pertinent pages in the Committee's Minutes of Proceedings and Evidence.

A copy of the relevant Minutes of Proceedings and Evidence Issues (Nos. 29 and 30) is appended.

Respectfully submitted,
ALFRED D. HALES,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 7, 1967.

(41)

The Standing Committee on Public Accounts having been called to meet *in camera* at 9.30 a.m. this day, the following members were present: Messrs. Baldwin, Bigg, Flemming, Hales, Leblanc (*Laurier*), McLean (*Charlotte*), Thomas (*Maisonneuve-Rosemont*), Winch (8).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. G. R. Long and H. E. Hayes of the Auditor General's staff.

There being no quorum, an informal discussion and questioning of the Auditor General and his staff took place respecting the form and content of the Estimates.

The Chairman informed the Committee that the Secretary of the Treasury Board would be invited to attend the next meeting.

At 11.10 p.m. the Chairman adjourned the informal meeting to the call of the Chair.

TUESDAY, February 14, 1967.

(42)

The Standing Committee on Public Accounts met *in camera* this day at 9.40 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Ballard, Bigg, Flemming, Hales, Leblanc (*Laurier*), McLean (*Charlotte*), Morison, Muir (*Lisgar*), Schreyer, Southam, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker (15).

In attendance: Dr. George F. Davidson, Secretary of the Treasury Board; Mr. G. R. Long, Assistant Auditor General and Mr. H. E. Hayes, Audit Director.

The Secretary of the Treasury Board and the Assistant Auditor General were questioned respecting the form and content of the Estimates.

The Committee agreed to meet again on Thursday, February 16, 1967.

At 11.10 a.m., discussion continuing, the Chairman adjourned the meeting to the call of the Chair.

THURSDAY, February 16, 1967.

(43)

The Standing Committee on Public Accounts met *in camera* this day at 9.45 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Bigg, Cameron (*High Park*), Flemming, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Morison, Noble, Schreyer, Southam, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker, Winch (16).

In attendance: Mr. G. R. Long, Assistant Auditor General and H. E. Hayes, Audit Director.

The Committee resumed consideration of a draft report.

The Assistant Auditor General was questioned respecting the form and content of the Estimates.

At 11.05 a.m. discussion continuing the Chairman adjourned the meeting to the call of the Chair.

THURSDAY, February 23, 1967.
(44)

The Standing Committee on Public Accounts met *in camera* this day at 9.45 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Bigg, Forbes, Gendron, Hales, Lefebvre, Muir (*Lisgar*), Noble, Southam, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker, Winch (14).

Mr. Baldwin, Chairman of the Subcommittee appointed to obtain further details concerning Paragraph 125 of the Auditor General's Report, 1965: *Excess cost of Seaway property*, read a report from the Sub-committee.

Discussion ensued.

On motion of Mr. Baldwin, seconded by Mr. Noble,

Resolved unanimously,—That the report of the Subcommittee be adopted and attached to today's Minutes of Proceedings (*See Appendix "23"*).

Mr. Forbes raised the question of Ministers of the Crown having the authority to spend certain sums of money under the Financial Administration Act without first obtaining Parliamentary approval.

Discussion ensued and it was

Agreed unanimously,—That the Chairman would try and obtain this information and circulate a brief report to the members, (*See Appendix "24"*).

The Chairman read a letter from the Comptroller of the Treasury respecting savings in printing costs in Public Accounts of \$21,631.50.

Discussion ensued and it was

Unanimously agreed,—That in view of the savings of approximately \$48,000 per annum, the Comptroller of the Treasury be notified to cease the preparation of listings of travelling expenses in excess of \$1,000 and payments to suppliers and contractors in excess of \$100,000.

On motion of Mr. Lefebvre, seconded by Mr. Muir (*Lisgar*),

Resolved unanimously,—That the letter of the Comptroller of the Treasury and the ensuing correspondence be attached to today's Minutes of Proceedings (*See Appendices "25" and "25A"*).

The Chairman read a letter from the Winnipeg Free Press.

Discussion ensued, and it was

Agreed,—That a meeting might be held respecting second class mail privileges when the next Auditor General's Report is considered, and this letter to be attached to today's Minutes of Proceedings (*See Appendix "26"*).

The Committee considered a Second Revised Draft Report on its meetings on November 22, and November 23, 1966.

Following discussion, the Report was amended, adopted as amended.

Moved by Mr. Baldwin, seconded by Mr. Tucker,

Resolved unanimously,—that the Chairman present it to the House as their Thirteenth Report.

It was agreed that following presentation of the Thirteenth Report to the House, that the Chairman would arrange a press conference to discuss details of the Report.

Following discussion, it was

Unanimously agreed,—That the Chairman approach the House Leader respecting a short debate on sections 5 and 6 of the Thirteenth Report.

The Committee considered a draft report on its meetings November 24 and November 29, 1966.

Following discussion, it was adopted.

Moved by Mr. Tremblay, seconded by Mr. Bigg,

Resolved unanimously,—That the Chairman present it to the House as their Fourteenth Report.

At 11.00 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

APPENDIX "23"

STANDING COMMITTEE ON PUBLIC ACCOUNTS
SUBCOMMITTEE

(Respecting Paragraph 125—Excess cost of Seaway property—
Auditor General's Report, 1965)

WEDNESDAY, February 23, 1967.

The Subcommittee met this day at 2.05 p.m. The Chairman, Mr. Baldwin presided.

Members present: Messrs. Baldwin, Bigg, Lefebvre (Mr. Lefebvre replaced Mr. McLean (Charlotte)).

Also present: Mr. A. D. Hales, M.P.

The Chairman read a draft statement which was considered, adopted unanimously and the Chairman was ordered to present this to the Main Committee as its First Report as follows:

To: Members of the Standing Committee on Public Accounts

At a meeting of the Committee, May 10, 1966, the Sub-Committee of the Standing Committee on Public Accounts consisting of Messrs. Baldwin, Bigg, Flemming and McLean (Charlotte) were instructed to obtain from the St. Lawrence Seaway Authority further details respecting the encroachment on Crown land by an oil fuel company, the owner of a private oil pipeline, as well as information from the Department of Transport on the original expropriation price of the said company's property, referred to in paragraph 125 of the 1965 Auditor General's Report. When the matter was being discussed in committee, the members had before them a copy of the long form Report of the Auditor General to the President and members of the St. Lawrence Seaway Authority, dated September 29, 1965.

Your Subcommittee met on several occasions together with Mr. George Long, Assistant Auditor General and members of the staff. Written interrogatories were sent to the President of the Authority and also the to the Deputy Minister of Transport seeking information as to matters which were of interest and indicating areas where your Subcommittee felt further answers were required. Written replies were received to these queries.

In the result, your Subcommittee felt that the action of the Department of Transport in 1956 in abandoning the expropriation of certain lands in the Cornwall area was premature and ill-advised and later a larger sum of money had eventually to be paid in order to acquire this same property. Your Subcommittee also felt that the department and the Seaway Authority should have learned of the action of the company in laying a pipeline across adjoining land owned by the government without obtaining the necessary authority to do so.

The Authority did not act in the public interest in permitting the property which had been acquired to be divided into more than one parcel for leasing purposes. By doing so, the company was able to abandon one parcel and retain the part for which it had use. As a result, the Authority did not obtain the rental which should have been paid, having in mind the value of the entire portion.

G. W. Baldwin, M.P.,
Chairman (Subcommittee).

At 2.25 p.m. the meeting adjourned.

J. H. Bennett,
Clerk of the Committee.

APPENDIX "24"

GOVERNMENT CONTRACT REGULATIONS

Section 39 of the Financial Administration Act provides:

39. The Governor in Council may make regulations with respect to the conditions under which contracts may be entered into and, notwithstanding any other Act,

- (a) may direct that no contract by the terms of which payments are required in excess of such amount or amounts as the Governor in Council may prescribe shall be entered into or have any force or effect unless entry into the contract has been approved by the Governor in Council or the Treasury Board.

Pursuant thereto, Order in Council 1964-1467 of 23 September 1964 revoked the Government Contracts Regulations previously in effect and substituted new ones. The new regulations were amended in the area of interest to us here by Order in Council P.C. 1967-12 of 4 January 1967. Consequently what follows is based primarily on the 1964 Regulations as recently amended.

Before embarking on an explanation of the general situation, it should be pointed out that Section 22 of the Regulations provides:

22. Notwithstanding anything in these Regulations, the Treasury Board may, in respect of a particular contracting authority, upon notification to the contracting authority, increase or decrease any one or more of the amounts specified in Parts I, II, III, IV.

For purposes of a general exposition, it will be sufficient to explain that by definition "contracting authority" means the Minister presiding over a department. Under authority of Section 22 I am aware that two departments have been delegated authority to enter into contracts with higher maximum limits than are permitted by the basic Regulations. What is involved will be referred to after comments on the general situation.

General

The Government Contracts Regulations cover four types of contracts:

1. Construction Contracts
2. Purchase Contracts
3. Service Contracts
4. Leases

The question of authority will now be considered under these headings.

1. *Construction Contracts*

Departments may enter into construction contracts without Treasury Board approval if

- (a) the amount payable under the contract does not exceed \$15,000 ("amount" in relation to any contract means the cost or price of the contract, whether such cost is fixed or estimated); or
- (b) the amount payable under the contract exceeds \$15,000 but does not exceed \$100,000, and not less than two tenders have been obtained and the lowest tender accepted.

At this point, it should be mentioned that with respect to construction, purchase and service contracts, the Regulations are specific as to the extent to which the amount payable under a contract may be increased without seeking Treasury Board approval. For present purposes, however, it is assumed that the information required relates only to entry into contracts, and on that premise the somewhat involved detail with respect to increases will not be presented.

2. *Purchase Contracts*

Departments may enter into purchase contracts without Treasury Board approval if

- (a) the amount payable under the contract does not exceed \$15,000; or
- (b) the amount payable under the contract exceeds \$15,000 but does not exceed \$50,000 and not less than two tenders have been obtained and the lowest tender accepted.

The question is sometimes asked whether departments ever resort to contract "splitting", that is to breaking down an intended order into a number of contracts in order to avoid a reference to the Treasury Board. After the initial Government Contracts Regulations were introduced in 1953, we did encounter instances where it seemed reasonable to assume that this had been done deliberately. It was impressed upon the departments concerned that repetition would not be allowed to pass without "appropriate action". What form this would take was not spelled out, but presumably the inference was drawn that this could involve a comment in the Auditor General's Report. In any case, it seemingly had a salutary effect because no cases have come to attention in recent years.

In the foregoing connection it may be of interest that in April 1962 the Treasury Board took a deputy head to task because six separate orders for the purchase of identical units of equipment had been made by his Department during one month for a total of nearly \$38,000. To quote from the letter:

It appeared to the Ministers of the Board that the issuance of six purchase orders in one month for Xerox equipment for the Bomarc sites was to circumvent the Government Contracts Regulations. This device, known as contract splitting, which prevents the Board from exercising its authority under the Regulations is of serious concern to the Ministers. Among other things, it usually causes higher prices and increased administration costs.

Accordingly, and on the assumption that the separate orders for Xerox equipment were issued to circumvent the Government Contracts Regulations the Ministers directed me (the Board's Secretary) to bring this matter to your attention and ask your Department to both review the present procedures for entry into contracts and carefully scrutinize all proposed purchase orders to ensure that there will be no contract splitting in future.

This is the only instance that has come to my attention in recent years where the Board found it necessary to admonish a department for contract splitting.

As our auditors have standing instructions to be on the alert for instances of contracts in order to avoid a reference to the Treasury Board. After the initial that any instance would definitely be an isolated one. Anything resembling a practice would not pass unnoticed.

3. Service Contracts

The upper limits of departmental authority are set out in the Regulations by types of service. A few examples may be of interest:

- (a) For engineering, architectural and other services required in respect of the planning, preparation for or supervision of the construction or repair of a work, a department can contract on its own authority if the amount payable does not exceed \$25,000. The limit is \$50,000 if the specific work project has been approved in writing by the Treasury Board.
- (b) For management consultant services, a department can contract on its own authority if the amount payable under the contract does not exceed \$25,000 and not less than three tenders have been obtained. Otherwise the upper limit of departmental authority is \$5,000.
- (c) For advertising services, the upper limit of departmental authority is \$10,000.

The Regulations deal specifically with 17 different service categories. With regard to utilities (e.g. electricity, gas, water, heat), there is no limit to departmental authority provided that the rates do not exceed the established rates charged to other comparable consumers in the same rate structure area in which the service is supplied. Treasury Board approval is required, however, where rates are based on the value or assessed value of the property serviced, or if negotiated installation or capital charges are involved, within specified limits.

Services not specifically dealt with in the Regulations are covered by the following:

A contracting authority, without the approval of the Treasury Board, may enter into a contract for the furnishing or performance of any service not (otherwise) specified, if the amount payable under the contract does not exceed five thousand dollars.

4. Leases

The Regulations distinguish between leases required in connection with the administration of the Department of Public Works and others. The Department of Public Works may contract without Treasury Board approval where the annual rate calculated on the basis of the amount to be paid under the lease does not exceed \$15,000 and its term does not exceed five years, or where the annual rate exceeds \$15,000 but the total amount to be paid under the lease does not exceed that amount. In any other case Treasury Board approval is required if the annual rate exceeds \$5,000 and the term exceeds five years. However, it is not required if the annual rate exceeds \$5,000, but the total amount to be paid does not exceed \$15,000 and the term does not exceed one year.

A qualification to the foregoing is that in no case may a lease of premises intended to be used as living quarters for officers or servants of the Crown be entered into without Treasury Board approval.

Exceptional Cases

Earlier reference was made to two instances where departments have been delegated authority under Section 22 of the Regulations to enter into contracts with higher maximum limits, without Treasury Board approval, than is permitted by the general Regulations.

In February 1965 the Treasury Board agreed to delegate authority to the Department of Transport to enter into the types of contracts referred to below to the limits specified provided the following criteria were met:

- (a) The project had been approved in writing by the Board;
- (b) The price was within the approved cost;
- (c) Set procedures concerning tendering had been followed;
- (d) Tenders had been invited by public advertisement; and
- (e) The lowest tender was accepted.

Construction Contracts—a limit of \$500,000

Purchase Contracts—a limit of \$250,000

Service Contracts. Limits were raised in a number of instances. For instance, a departmental limit of \$250,000 was placed on contracts for the cleaning of terminal buildings, road clearing, snow removal or ice observation. A limit of \$350,000 was placed on a contract for the charter of a vessel. In all, six service categories received attention.

Similarly, additional leeway was given with respect to contract amendments with which, however, this brief exposition is not dealing.

Likewise, in March 1965 the Treasury Board agreed to give greater delegation of authority to the Department of Defence Production for the entry into (and amending) of contracts with respect to procurement activities on behalf of civilian departments, and at the same time established a number of principles to be followed in relation to this delegation of authority. The one of primary interest for purposes of this statement is the establishment of a limit of \$500,000 where tenders have been called and the lowest is accepted; a limit of \$250,000 where tenders have not been called or the low bid is not accepted.

February 24, 1967.

APPENDIX "25"

OTTAWA, February 2, 1967.

Mr. Alfred D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
Room 549S, House of Commons,
Ottawa 4, Ontario.
Dear Mr. Hales:

In the minutes of the meeting of your Committee on November 17, 1966, a report was requested from me with respect to the cost of printing and publishing the reduced edition of the 1964-65 Public Accounts and whether, in fact, the Committee have really saved the money they set out to save by the deletions which they recommended.

The Canadian Government Printing Bureau has advised me that the cost of printing the 1964-65 Public Accounts amounted to \$95,658.22, or \$34.50 per page. This amount covers the cost of both the English and French editions. The two editions of the 1963-64 Public Accounts contained a total of 3,368 pages. That for 1964-65 contained 2,772 pages. As this total included 31 pages of new material, the reduction due to the deletions recommended by the Public Accounts Committee was 627 pages. Applying the cost of \$34.50 per page to this reduction of 627 pages, resulted in savings in printing costs of \$21,631.50.

Yours sincerely,
H. R. BALLS,
Comptroller of the Treasury.

APPENDIX "25A"

OTTAWA, February 28, 1967.

Mr. H. R. Balls,
Comptroller of the Treasury,
Department of Finance,
Ottawa, Canada.

Dear Mr. Balls,

Please be advised that your letter of February 2, 1967 was brought to the attention of the Standing Committee on Public Accounts at an in camera meeting February 23, 1967.

A discussion took place and it was unanimously agreed that the preparation of the listings of travelling expenses in excess of \$1,000 and payment to suppliers and contractors in excess of \$100,000 would no longer be requested annually from your Department.

At the same time the Committee would like to remind you of your statement on page 802, in your evidence given at the meeting on June 16, 1966—that you were authorized by the Minister to say that any requests for members with regard to the information deleted from Public Accounts would be made available to members if requested.

As mentioned in your letter of July 21, 1966 costs of preparing these lists amounted to \$26,299.42. (See Appendix 14, Issue No. 24, November 17, 1966.) In your letter of February 2, 1967 you advise that the savings in printing costs amounted to \$21,631.50. (See Appendix 23, Issue No. 32, February 23, 1967.) Thus a worthwhile saving of approximately \$48,000 can be achieved, which will continue to accrue over the years with mounting administration and printing costs.

Yours sincerely,
STANDING COMMITTEE ON PUBLIC ACCOUNTS
ALFRED D. HALES,
Chairman.

APPENDIX "26"

Winnipeg Free Press Company Limited
300 Carlton Street, Winnipeg 2, Canada
Telephone 943-9331

February 2, 1967

Mr. Gerald William Baldwin
Member of Parliament
House of Commons,
Ottawa, Ontario
Dear Sir:

It is a pleasure to have the opportunity to speak to you on the phone during your recent visit to Winnipeg. The information you passed on to me concerning the Public Accounts Committee was most helpful.

I certainly would appreciate the opportunity to present some facts to the Committee the next time they are considering the Post Office Accounts. As the Free Press Weekly Farmer's Advocate is probably the largest user of Second-class mail privileges, in Canada, closely followed by other farm publications, their views on the probable cost of handling second-class mail might be of interest to the Committee.

Any consideration the Committee could give would be greatly appreciated.

Yours truly,
WINNIPEG FREE PRESS CO. LTD.
R. H. Shelford,
Business Manager.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966-67

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 33

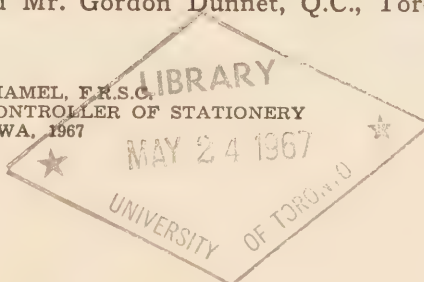
THURSDAY, APRIL 13, 1967

Public Accounts, Volumes I, II and III (1966)
Reports of the Auditor General to the House of Commons (1966)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General; and Mr. Gordon Dunnet, Q.C., Toronto.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Racine,
Mr. Schreyer,

Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
 neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker,
Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, April 5, 1967.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, and the Report of the Auditor General thereon, tabled on January 9, 1967 and February 20, 1967, respectively, together with the report and financial statement of the Canada Council for the fiscal year ended March 31, 1966, and the Report of the Auditor General thereon tabled on August 30, 1966, be referred to the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, April 13, 1967.

(45)

The Standing Committee on Public Accounts met this day at 10.10 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Ballard, Bigg, Dionne, Forbes, Gendron, Hales, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Southam, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker (16).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. Gordon Dunnet, Q.C.; From the Auditor General's Office: Mr. G. R. Long, Assistant Auditor General and Messrs. Hayes and Laroche.

The Clerk read the Committee's Order of Reference dated Wednesday, April 5, 1967.

The Chairman read the recommendations of the Subcommittee on Agenda and Procedure, consisting of Messrs. Hales, Chairman, Bigg, Flemming, Lefebvre and McLean (*Charlotte*), of its meeting April 11, 1967:

- (a) That the Committee resume meetings as soon as possible.
- (b) That the Committee consider the proposed draft legislation respecting the Office of the Auditor General, prepared in compliance with the Committee's request in its fifth recommendation to the House, June 28, 1966. (Third Report)
- (c) That the Committee consider forming a Subcommittee to review this draft legislation.
- (d) Consider the Auditor General's Report 1966, and the Auditor General's Follow Up Report when available.
- (e) That Crown Assets Disposal Corporation be among the first called before the Committee.

Discussion ensued thereon.

Mr. Baldwin suggested that Mr. J. Grant Glassco be called before the Committee respecting the extent to which the recommendations of the Royal Commission on Government Organization have been carried out.

Discussion ensued.

On motion of Mr. Baldwin, seconded by Mr. Noble,

Resolved,—That the question of calling Mr. Glassco be referred to the Subcommittee on Agenda and Procedure.

On motion of Mr. Baldwin, seconded by Mr. Lefebvre,

Resolved,—That the recommendations of the Subcommittee on Agenda and Procedure be approved.

The Chairman introduced Mr. Gordon Dunnet, Q.C., legal adviser for the Auditor General.

The proposed draft legislation respecting the Office of the Auditor General was presented to the Committee.

(Entered as Exhibit XVI)

The Auditor General and Mr. Dunnet were questioned thereon.

On the suggestion of Mr. Ballard and Mr. Baldwin, it was

*Agreed,—*That a memorandum be prepared to enable the Committee to compare the proposed legislation with the Act respecting the Office of the Auditor General.

It was also *unanimously agreed,—*That this proposed legislation be considered by the whole Committee.

On Mr. Lefebvre's suggestion, to speed the work of the Committee, it was

*Agreed unanimously,—*That the Committee proceed with consideration of the Follow Up report at the next meeting, Tuesday, April 18, 1967, pending receipt of the French translation.

At 11.25 a.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,

Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, 13 April, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. Welcome to our first meeting since we tabled our final report which, I believe, was in March. This is the first meeting since the House has given us our terms of reference and at this point I would ask our clerk to read the terms of reference.

The CLERK OF THE COMMITTEE: Wednesday, April 5, 1967. Ordered, that the Public Accounts Volumes 1, 2 and 3 for the fiscal year ended March 31, 1966, as a report of the Auditor General thereon, tabled on January 9, 1967 and February 20, 1967 respectively, together with the report and financial statement of the Canada Council for the fiscal year ended March 31, 1966, as a report of the Auditor General thereon, tabled on August 30, 1966, be referred to the Standing Committee on Public Accounts.

The CHAIRMAN: Thank you, Mr. Bennett. Following this, your Chairman called the steering committee together on Tuesday of this week. The steering committee had a very good discussion as to what procedure and what order of precedence we should follow.

The first decision your steering committee made was that, even though it was not definite as to how long this session might sit, we should get on with the work, and cover as much ground as we could. It was felt that if the session should close and the new one start, the new Committee could take up where we left off.

The steering committee felt that the first thing we should do is to have the follow-up report. In view of the fact, however, that it is not quite complete at the moment, they suggested that perhaps this would be a good meeting at which to discuss the proposed Auditor General's act, which this Committee tabled in the House on June 23. The Committee gave instructions to the Auditor General to draft the proposed act and to consult his legal advisers to assist in this matter. This he has done, as instructed by the Public Accounts Committee. Your steering committee felt that this would be a good meeting at which to table this report and have a discussion thereon, and I propose to do that in just a minute or two.

Now, while we are talking about steering committee business, are there any other matters that this Committee thinks we should have discussed or would like to refer to the steering committee for consideration before bringing them to this Committee?

Mr. BALDWIN: Mr. Chairman, there is a thought here which I would ask you to consider referring to the steering committee for discussion and action, because it may take some time to arrange.

In the course of our discussions in this Committee, we have had quite a lot of talk and some controversy as to the extent to which the recommendations of the

Glassco Commission have been carried out, the extent to which they should be carried out and what further value could be achieved by more rapid implementation.

This discussion has reached outside the four corners of this Committee into the House and elsewhere, and I would suggest that the steering committee might give some thought to calling Mr. Glassco to ask him if he would feel free, if he is not inhibited by the fact that he was chairman of the royal commission, to appear before us. In the light of his knowledge, and having a look at what the government has implemented and what it might implement, and in the light of the statements that Mr. Henderson has made and the statements that have been made on behalf of the government, this Committee might derive a great deal of value and benefit from hearing Mr. Glassco on the situation as it stands now.

This might not take place before the new session, but a meeting of this kind would take some time to arrange and it would naturally have to take place at the beginning of our deliberations on Mr. Henderson's report, possibly under the scope of the audit, if it could be arranged. However, I think the first step is to see if Mr. Glassco could come.

I should like to know whether the steering committee feels this might be considered. I am not making a motion; I am just making a suggestion and giving it to you as Chairman so that you might see fit to take it up with the steering committee.

The CHAIRMAN: Gentlemen, I would entertain your suggestion with a view to referring this matter to the steering committee. The steering committee could debate the pros and cons of it, but I would entertain views with regard to referring it to the steering committee for consideration. All in favour?

Mr. MUIR (*Lisgar*): Yes, I would support this. I think it is a good move.

The CHAIRMAN: I shall refer it to the steering committee. Mr. Henderson, have you any comments on this matter?

Mr. A. M. HENDERSON (*Auditor General*): I think not, Mr. Chairman. It is a good suggestion and one which the steering committee might usefully discuss. In regard to this and related matters, I had a talk with Dr. Davidson when he telephoned me the other day. Would you care to have me mention that, Mr. Chairman?

The CHAIRMAN: Is it relevant to this?

Mr. HENDERSON: Perhaps.

The CHAIRMAN: I think perhaps it is not too relevant at the moment.

Mr. Baldwin, I think perhaps you should put that as a formal motion.

Mr. BALDWIN: I so move, Mr. Chairman.

The CHAIRMAN: Mr. Noble, in view of the fact that you support it, would you second it?

Mr. NOBLE: Yes.

The CHAIRMAN: Agreed.

The other matter that the steering committee discussed was the priority of the witness to be called and it was the opinion of the steering committee that the

Crown Assets Disposal Corporation be among the first witnesses to be called. I think some of the reasoning and thinking back of this was the fact that, when Expo is over, there is going to be a lot of government property for sale to be disposed of, and we would like to know in what direction Crown Assets are moving in this regard so that they will be prepared to handle this tremendous job of disposing of Expo surpluses.

Now, gentlemen, we have arrived at the point—

Mr. FORBES: May I ask a question on that?

The CHAIRMAN: Yes, Mr. Forbes.

Mr. FORBES: What property for disposal will come within the jurisdiction of the Crown Assets Disposal Corporation? Each pavilion belongs to an individual country. The only one that we would have control over is the one belonging to Canada.

The CHAIRMAN: Mr. Henderson is auditor for Expo and I think he is well versed and could answer that question.

Mr. HENDERSON: Broadly speaking, Mr. Forbes, it would relate to those properties which are strictly Canadian, that is assets on the books of the Crown Corporation.

The individual pavilions, of course, are the responsibility of the participating governments. The extent to which they might be purchased by the Canadian government or offered for sale elsewhere remains to be seen, but in the meanwhile Expo itself will conclude the exhibition holding considerable property. As we understand it now, Crown Assets Disposal Corporation will play a major role in disposing of that property.

Mr. FORBES: Is there any agreement between Expo and the Canadian government with regard to the pavilions belonging to other countries?

Mr. HENDERSON: I cannot speak authoritatively on that without referring to the Corporation, Mr. Forbes. The money for the individual pavilions of the contributing countries is being put up by those countries. The property is theirs, to either dismantle or dispose of as they see fit.

As I said earlier, the Corporation has considerable capital investment of its own—its administration buildings, the stadium; all those buildings you see when you visit it.

Mr. FORBES: Would this information be available to Crown Assets? Would they know now what property they may have to dispose of?

Mr. HENDERSON: Oh, yes. I think they have been holding conversations with the Corporation. Forward planning is going on now, as I understand it.

Mr. FORBES: Well then, I agree on that basis that it might be a worthwhile meeting.

The CHAIRMAN: The steering committee discussed one other matter, and that was that we would appoint a subcommittee to look into and discuss further the proposed Auditor General's act. I have outlined the steering committee's report, and I think we should, if it is your wish, move and second it, and give it to the Clerk.

Mr. Baldwin and Mr. Lefebvre moved and seconded that the report of the steering committee be accepted.

We will now proceed with the tabling of the proposed Auditor General of Canada act. As I said earlier, in our third report of this Committee we instructed the Auditor General to proceed on this basis, and to have his legal advisers assist him in drawing up this act. This has been done; copies of the act are here this morning and I shall ask that they be distributed. I should also like to introduce to you Mr. Gordon Dunnet of the firm of Bordon, Elliot, Kelley and Palmer. He is here this morning to answer questions and to assist in any work that we might do in this regard this morning. Mr. Dunnet.

Mr. BALDWIN: Am I correct in assuming that Mr. Dunnet is a member of the firm acting as legal advisers to the Auditor General, pursuant to the arrangements made some time ago?

The CHAIRMAN: That is right.

Mr. LEFEBVRE: This is the first public knowledge of this report except for the Governor General. Who else has had copies of this prior to this meeting?

The CHAIRMAN: The only people who have had copies of it, to my knowledge, are the Minister of Finance, the Auditor General and myself.

Mr. HENDERSON: Yes. I stated in my report, Mr. Lefebvre, that I had complied with this request and that I was submitting the draft legislation to the Chairman of the Public Accounts Committee and to the Minister of Finance concurrently with the delivery of my 1966 report to the Minister of Finance for tabling in the House of Commons.

The CHAIRMAN: Mr. Henderson will make some introductory remarks.

Mr. HENDERSON: As the Chairman has said, this legislation was prepared in accordance with the direction I received from the Committee. For easy reference, you might care to open up my 1966 report at page 4. You will recognize there five recommendations made by this Committee. They are indented and they run from page 4 to the top of page 5. The fifth recommendation was the direction you gave me to have this draft legislation prepared.

Before we leaf through the sections of the draft legislation, a brief statement describing it to you might be in order.

This draft legislation follows very closely our present legislation, that is the Financial Administration Act. As you know, Part VII of that act refers to my office, responsibilities and functions. All of these have been incorporated in this new legislation with the idea that it will be an act separate from the Financial Administration Act. In addition the recommendations which this Committee has made—the ones which are outlined on pages 4 and 5 have been brought together in this legislation as my legal advisers and I felt this was the proper course of action to follow.

All the sections of the Financial Administration Act as they presently stand have, of course, been very carefully studied and some have been changed slightly and, we think, improved. These will become evident, Mr. Chairman, during the discussion stage when the individual clauses are examined.

I think that is about all I have to say at this stage, Mr. Chairman, unless members have any questions to ask.

Mr. TARDIF: Mr. Chairman, is it the intention of the Committee to study this clause by clause today?

The CHAIRMAN: Yes, I think so. It is very brief.

Mr. TARDIF: Yes, it is very brief, but I think we should have some time to compare it with the existing act. I would expect that some time should be given to this Committee to study it before it is discussed clause by clause.

The CHAIRMAN: Well, I think, Mr. Tardif, that you can make a comparison after we run through it. I do not propose to ask the Committee for any decision today.

Mr. HENDERSON: I have with me Mr. Gordon Dunnet who is one of my legal advisers. Mr. Dunnet and I have worked together in the preparation of this, and with your permission I should like to ask him to speak to each of the clauses. In fact, perhaps you would like to have him open the discussion. Does that seem sensible, Mr. Chairman?

The CHAIRMAN: I think the Committee would agree. I think it would be nice to have an expert in the legal field show us how things are done, how they are arrived at and so on. Proceed, Mr. Dunnet.

Mr. TARDIF: Mr. Chairman, may I ask whether the expert you are referring to is an employee of the public service, or is he an independent adviser?

Mr. HENDERSON: Mr. Dunnet is one of my legal advisers appointed pursuant to the arrangements suggested and approved by this Committee, and following that, by the government.

Mr. TARDIF: Is he a public servant?

Mr. HENDERSON: No, sir.

The CHAIRMAN: I think you will recall the long discussion the Committee had at one time about a legal adviser to the Auditor General. We spent several meetings on it. How many years is it since you have had a legal adviser, Mr. Henderson?

Mr. HENDERSON: I think it is a little over three years.

Mr. BALDWIN: This is a recommendation which was made by this Committee, accepted by the government and approved by the Minister of Finance.

Mr. HENDERSON: Yes, that is correct.

Mr. GORDON DUNNET, Q.C.: Gentlemen, as Mr. Henderson has stated, the draft act follows fairly well the form of Part VII of the Financial Administration Act, with changes made to include the recommendations of the Committee together with one or two other changes which we thought might be made at this time. The other changes are primarily in wording rather than changes in substance.

If you care now to go through it clause by clause, clause 1 is the title of the new act. Clause 2, Interpretation, prescribes definitions that are made necessary by reason of the provisions of Part VII of the Financial Administration Act being

set up in a separate statute. You will note that subclause (1) provides specific definitions and subclause (2) incorporates definitions as they are in the Financial Administration Act. There is one new definition of substance in clause 2, and that appears as (d) of subclause (1)—public property. There is no definition of public property in the Financial Administration Act. We incorporated the definition here to give effect to the Committee's recommendation that the Auditor General should be responsible for the audit of Crown corporations.

Mr. TARDIF: Mr. Chairman, am I correct in saying that the Financial Administration Act governs the Treasury Board?

Mr. DUNNET: Yes, it governs the basic financial administration of Canada and it includes a section establishing and organizing the Treasury Board.

Clause 3 is the same in substance as the corresponding section in the Financial Administration Act. We made a slight change in language, otherwise the substance is the same.

Mr. TARDIF: Is it possible to get the change?

Mr. DUNNET: The existing section reads:

The Governor in Council shall by commission under the Great Seal of Canada appoint an officer called the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five years, but he is removable by the Governor General on address of the Senate and House of Commons.

We changed the form of it for two reasons. First, to bring it more in line with the current form of governmental drafting. The form in the proposed act is parallel to that of recent statutes providing for the appointment of officers of the Crown.

Mr. TARDIF: Mr. Chairman, I did not get the answer. What did we have before and what has been replaced or changed? Is it possible to know that?

Mr. DUNNET: There is no change in substance; the change is in the wording.

Mr. TARDIF: I have asked you whether it is possible to get the change in the wording.

Mr. DUNNET: I have read the existing language, which is all one sentence.

Mr. TARDIF: Well, the one I have before me is subclause (1) of clause 3. Is that what you read?

Mr. DUNNET: No, I read subsection (1) of section 65 of the Financial Administration Act.

Mr. TARDIF: And it has been replaced by clause—

Mr. DUNNET: By subclauses (1), (2) and (3) of clause 3.

Mr. GENDRON: Have you deleted the words "good behaviour"?

Mr. DUNNET: No, the words "good behaviour" are here. The words "good behaviour" perhaps were one of the reasons for changing it. Section (1) or Section 65 of the Financial Administration Act reads in part:

—the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five—

It was, perhaps facetiously, suggested by one of my senior partners that it could be interpreted to mean—that all the Auditor General has to do is to behave himself until 65, and then he is free to continue as Auditor General and do whatever he likes.

Some hon. MEMBERS: Hear, hear.

Mr. BALDWIN: When you get over 65, Mr. Chairman, there is always some doubt as to how good your behaviour is.

Mr. BALLARD: Mr. Chairman, I cannot help but agree with Mr. Tardif that our method of procedure is entirely unsatisfactory. For example, when I look at subclause (1) of clause 1, I would like to question it, but in my present state of unpreparedness I do not know whether or not I should because I do not know what follows in this present submission, nor what is in the old act. It is all very well for the witnesses to read these things out to us, but I think that if this Committee is to have a proper presentation to consider, we should have time to study this proposal. We should also have a concordance with the existing act so that we can examine any changes that are taking place. For example, I certainly do not agree with clause 3(1), that the Auditor General be appointed by the Governor in Council because I believe that the Auditor General should be appointed by Parliament—he should be Parliament's auditor and not the auditor of the Governor in Council. Now, this may not be the way that things are done in government, but I would like to have time to consider it and to find out what has taken place in the past. Certainly I think sitting down here cold to consider an act that is going to change the whole situation is unsatisfactory.

The CHAIRMAN: Mr. Ballard, I think your point is well taken and I think what you mean is that you would like to have beside you the Financial Administration Act as it now exists—

Mr. BALLARD: With a concordance between the two. Perhaps that is not the proper word to use, but Mr. Baldwin will probably let me know whether or not that is the proper word.

The CHAIRMAN: Yes. Your steering committee suggested that a subcommittee be appointed to do just that, or at least to make a very thorough study of the whole thing. However, I see your point. If we are going to do this this morning, would the Committee be agreeable to having Mr. Dunnet read the existing provisions while you have in front of you the proposed ones? It could then be left up to the subcommittee to sit down and study the pros and cons.

Mr. McLEAN (*Charlotte*): It seems to me that we should have, in addition to the ones before us, the existing legislation so that we can make a comparison. Otherwise, it will be hard to tell just exactly what the difference is between the Financial Administration Act and this proposed act. I do not suppose it would take too long to get copies of the Financial Administration Act.

Mr. HENDERSON: It would involve work for the members in making a comparison. I think the point made by Mr. Tardif, if I may say so, Mr. Chairman, and reiterated by Mr. Ballard is perfectly valid. When the steering committee decided that this draft legislation should be tabled today, it was my understanding that you were going to give consideration to the formation of a subcommittee

in which the whole matter could be gone into exhaustively because it is highly important that this be done and that you have this comparison. All I thought we would do this morning would be to give you the highlights of the document—no more, no less. Perhaps you might wish to discuss some of the more important points of principle. If Mr. Dunnet could briefly sketch out what these few pages contain, they might be reduced to more understandable proportions. I do not think it is fair to even expect you to pass a definite judgment when you do not have the comparisons in front of you. The idea was just to give you, so to speak, a quick run-through. Then you could take it away and, if you see fit, form a subcommittee, as I think should be done, because this merits the closest scrutiny and discussion.

The CHAIRMAN: Does that meet with your approval, Mr. Tardif?

Mr. TARDIF: Yes. Actually, this is a very important act, Mr. Chairman, and after it is incorporated I imagine that it will be a long time before any other changes are made. Therefore, I think it is absolutely imperative that we have the existing legislation before us so that we can make the necessary comparison.

Mr. HENDERSON: That will be coming without question, Mr. Tardif, but you do understand that the steering committee just met the day before yesterday.

Mr. TARDIF: We used to be more efficient when I was on the steering committee.

The CHAIRMAN: Well, we will see that you are appointed on the next one, Mr. Tardif.

Mr. SOUTHAM: I am in agreement with what Mr. Tardif and Mr. Ballard said, that we should have a chance to make a comparison before developing this new act. When Mr. Henderson suggests that a subcommittee make this close scrutiny, what is his reasoning behind this? Would it not be better if the whole Committee were brought into the picture, rather than a subcommittee?

The CHAIRMAN: Yes, most definitely, before any decision is reached.

Mr. HENDERSON: I would much prefer that but I felt that you would probably wish to have a subcommittee spend quite a bit of time on it, perhaps more than the main Committee could afford. I leave it in your hands, Mr. Chairman.

Mr. SOUTHAM: Well, that is the point of my question. Can we afford this time? Would it not be better, in the interests of the Committee at large to have the Committee study it rather than have a subcommittee work on it? Which method would be the most effective?

The CHAIRMAN: Well, I am just going by what the steering committee thought, that because there is so much to do, we had better send it to a subcommittee first then bring it back and give the Committee the opportunity of going over it very carefully.

Mr. FORBES: Mr. Chairman, I have noted that in the House of Commons, when a bill is presented for amendment, a clause is always put in stating the present wording of the act, followed by the proposed new wording. Could this not be done over again in the same way? For example, you would say that clause

2 is being amended by deleting so much or adding so much, and so on. Then we would have it, as the previous speaker said, all before us as we examine it.

Mr. HENDERSON: That will most certainly be done, Mr. Forbes. It is part of our planning if and when you form a subcommittee, or decide that the main Committee will take it. Mr. Dunnet does have notes here on all the changes made, and he could run through them very quickly and just describe them to you. They are reflected in the legal language you will be examining later, but if you want quick knowledge of the changes, I suggest that we invite Mr. Dunnet to read these notes. It would not take very long.

Mr. MUIR (*Lisgar*): I was going to suggest that if we had the relevant sections of the act to compare with these side by side, I think it would be very useful.

The CHAIRMAN: In view of the fact that Mr. Dunnet is with us this morning, would the Committee be agreeable to hearing a rough idea of the thinking back of this? Your subcommittee could then take hold of it after which it can come back to this Committee and you will have ample opportunity to discuss the old and the new side by side.

Mr. BALDWIN: I certainly think that while Mr. Dunnett is here, we should have a complete preliminary discussion of it, to relate what is in this proposed act and what the Committee proposed before, on the understanding that this is purely preliminary. This having been done, the Committee could then decide whether they want a subcommittee or whether they want the entire Committee to review the act, clause by clause, in the light of some of the suggestions made by the members. Possibly we could have the benefit of Mr. Dunnet's experience now.

The CHAIRMAN: Is it agreed that we proceed?

Mr. TARDIF: I think this is important enough, Mr. Chairman, that it should not be studied only by a subcommittee, but also by all the members of the Committee who are willing to attend the meeting.

The CHAIRMAN: We will come back to that after we run through this and decide along your suggestion.

Mr. NOBLE: Mr. Chairman, is this brief not a summary of recommendations that this Committee has already made?

The CHAIRMAN: Yes.

Mr. NOBLE: And we are now getting a legal viewpoint on the things that we have recommended?

Mr. HENDERSON: That is right. That is what Mr. Dunnet can give you now if he could just run through the summary of changes.

Mr. DUNNET: May I point out to you the fundamental changes made in the provisions of the Financial Administration Act, and relate these to the recommendations of the Committee. I have already mentioned the definition of public property. This definition is made necessary by the recommendation that the

Auditor General be the auditor or, at least, the joint auditor of all Crown corporations. The existing provision reads:

Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation.

In order to give effect to the recommendation of the Committee, a definition of public property has been included in the draft act which, as I have already mentioned, appears as paragraph (d) of subclause (1) of clause 2. In addition subclause (2) of clause 13, of the draft act which appears on page 7 provides that:

The Auditor General shall include in the report made by him as provided in subsection (1)—

That is, the report the Auditor General makes to Parliament:

—such information as in his opinion should be brought to the attention of the House of Commons in relation to the accounts and financial statements of any Crown corporation and the report of the auditor or joint auditors thereon.

In other words, the existing act is amended to specifically provide for reports on Crown corporations.

Mr. BALDWIN: This is mandatory under the new proposal.

Mr. DUNNET: Yes.

Mr. BIGG: Would there be no exceptions at all, for instance, in the case of the C.N.R. which is a Crown corporation?

Mr. DUNNET: It is a Crown corporation and the recommendation of the Committee is that the Auditor General be appointed the auditor or joint auditor of all Crown corporations.

Mr. TARDIF: The intent of that is to have these Crown corporations retain the firms of auditors employed by them, but, at the same time, to have the federal auditor check on them.

Mr. DUNNET: Or be a joint auditor with them.

Mr. TARDIF: Then, do we get a joint auditor for the Auditor of Canada?

Mr. HENDERSON: No, Mr. Tardif. It would be the way I, for example, audit Expo 67. I am the joint auditor with the provincial auditor of Quebec for Expo 67.

Mr. DUNNET: May I read one further provision which is right on this point. If you look at clause 9 of the draft act on page 5, you will note that it reads:

Notwithstanding any other Act,

- (a) the Auditor General is entitled to be appointed the auditor of a Crown corporation; and
- (b) where a person other than the Auditor General is appointed the auditor of a Crown corporation, the Auditor General shall be a joint auditor of such corporation.

Mr. BIGG: Is it correct that at the present time we have nothing to do with the auditing of the C.N.R.?

Mr. DUNNET: That is right.

Mr. McLEAN (*Charlotte*): Mr. Chairman, where in this joint auditorship would the responsibility lie?

Mr. HENDERSON: It would lie, as it lies in all joint auditing arrangements, on both, jointly and severally. In the case of Expo 67, Mr. Tremblay, the provincial auditor of Quebec, is liable just as I am. We pool our staffs and follow a common program. We do the job together.

Mr. McLEAN (*Charlotte*): It was my thought that you needed authority to go into these companies and that you did not have it.

Mr. HENDERSON: The Auditor General is eligible under the present legislation to be appointed the auditor or the joint auditor of any Crown corporation. He is just eligible to be appointed. As you know, in six or seven cases he is not appointed. Under the proposed legislation which Mr. Dunnet is describing, when a private auditor is appointed, automatically he will have the Auditor General as a joint auditor with him. In answer to Mr. Tardif's question, this will mean that the private auditors can continue; in fact, it might be the decision to bring in more of them.

Mr. TARDIF: What would be the advantage Mr. Chairman? If you have a firm of recognized auditors with certain ethics doing an audit, you should not have to worry about their honesty. Is it necessary for our auditor to check on recognized auditors' firms? If this system is adopted, will it mean that we will have to have additional staff which will increase the cost of the audit?

Mr. HENDERSON: No. It should in point of fact reduce the cost. The Committee already discussed that particular point when framing its recommendation, Mr. Tardif, I do not know whether you wish to go into it in any depth now.

Mr. TARDIF: There is no point in going into it just now, but eventually we will have to.

Mr. HENDERSON: The point is that if the Auditor General is the joint auditor and is functioning under legislation such as this, then the details of all the crown corporations will be contained in his report to the House of Commons. As things stand now, this report of mine excludes any reference to the six of which I am not the auditor.

Mr. TARDIF: I see.

Mr. LEFEBVRE: Could you name the six.

Mr. HENDERSON: They are listed at page 133 in my report.

Mr. TARDIF: Mr. Chairman, I am not objecting to that. I am just wondering why it is necessary to audit the auditors.

Mr. HENDERSON: It is not auditing the auditors, Mr. Tardif.

Mr. TARDIF: I am just wondering whether these crown corporations submit their financial reports and audits to the government. I think they do.

Mr. HENDERSON: The corporations of which I am not the auditor or joint auditor are Air Canada, Bank of Canada, Canadian National Railways, The Canadian National Railways Securities Trust, The Canadian Wheat Board, Central Mortgage and Housing Corporation and Industrial Development Bank.

Mr. BALDWIN: Did you not have one added?

Mr. HENDERSON: I believe there was one added since this report was written, namely the Company of Young Canadians.

Mr. BALDWIN: Yes, the Company of Young Canadians.

Mr. LEFEBVRE: You are eligible to be named to these under the present act.

Mr. HENDERSON: Yes, absolutely, sir.

Mr. LEFEBVRE: But until you are named, you have nothing to do with them. Is that correct?

Mr. HENDERSON: To date, I have not had anything to do with them because I have not been appointed the auditor or joint auditor.

Mr. LEFEBVRE: If one of these crown corporations wanted you named as joint auditor or auditor, how would they go about it?

Mr. HENDERSON: It would depend on the legislation surrounding each of the corporations. In some cases the Auditor General would be appointed at the annual meeting as the joint auditor with the private firm. In other cases, the government, by means of an Order in Council would designate an auditor, and in other cases he would be named right in the legislation. For example, in the case of the Company of Young Canadians, which is the most recent, I believe the legislation reads that the auditor shall be appointed by the Governor in Council.

Mr. LEFEBVRE: Without mentioning your office at all.

Mr. HENDERSON: I have not been asked to audit it, although the government has named me the auditor of five or six other new crown corporations with which you are familiar. They are the more recent ones that have been passed. I mention the Company of Young Canadians merely to illustrate this point.

Mr. LEFEBVRE: I understand that the ones you were named to recently were at the recommendations of this Committee. Is that correct?

Mr. HENDERSON: What effect the recommendations of this Committee had on naming me as auditor in these cases is something about which I have no knowledge, Mr. Lefebvre.

Mr. LEFEBVRE: I just want to clear up one little thing. Under the new act you would automatically be either a joint auditor or auditor of every crown corporation.

Mr. HENDERSON: Right.

Mr. TARDIF: Mr. Chairman, when Mr. Lefebvre interrupted me with his eight supplementary questions—

Some hon. MEMBERS: Hear, hear.

Mr. TARDIF: —he did not give Mr. Henderson a chance to answer the question I asked. Do not these crown corporations submit an audit every year to the minister who is responsible for them?

Mr. HENDERSON: Oh, yes. They certify the accounts, and the accounts are contained in the annual report.

Mr. TARDIF: While I have no objections to it—and I would have to give it some thought—the actual purpose of this is to audit the auditors.

Mr. HENDERSON: No—

Mr. BIGG: I cannot understand the point being made. Take the Company of Young Canadians; they do not need a firm of auditors to set up and audit their books.

The CHAIRMAN: Mr. Tardif, we are getting into the discussion that brought about this recommendation in the first place.

Mr. TARDIF: You are right.

The CHAIRMAN: However, I think the Committee's thinking—and I stand to be corrected—when we made that recommendation was that all crown corporations are part of the Government of Canada. We, as members of this Committee and as Members of Parliament were interested to know how the taxpayers' money was spent; whether it was by Crown corporations or by the government. Because the Auditor General reports to parliament, we felt that crown corporations should be reported on by him, and that he should be their auditor as well. I think this was the general consensus of the Committee.

Mr. BALDWIN: I believe there was another point, Mr. Chairman. Sometimes so happens by the winds of chance that after an election private auditors are changed, and at least if the Auditor General is the joint auditor there can still be continuity of audit, which is sometimes not the case at the present time.

The CHAIRMAN: Yes, and as joint auditor you would still have that continuity.

Mr. HENDERSON: There were several interesting developments on this point, Mr. Chairman, which I might just mention in passing, which serve to confirm the position taken by the Committee in framing this recommendation. I would refer first of all to section 63(17) of the new Bank Act. As most of you probably know, the chartered banks of Canada all have joint auditors—two firms are appointed in every case, including the Bank of Canada. The new Bank Act provides—and I am quoting from subsection (17) of section 63—that:

Where the bank carries on any of its operations in the name of a corporation controlled by the bank, the auditors of the bank shall be the auditors of the corporation and the bank shall take all necessary steps to ensure that they are appointed auditors of the corporation accordingly—

Now, as auditor of the Government of Canada, these are in the category of controlled corporations. Therefore, the principle adopted by your Committee has, in fact, been embodied in the new bank legislation. Secondly, you are familiar no doubt with the interim report of the select committee on company law in Ontario which is quite specific on this point; in fact, it has a whole chapter devoted to it. That, of course, arises out of the recent disclosures of having one set of auditors for the parent company and a completely different set for subsidiaries.

The CHAIRMAN: I think we had better proceed, gentlemen.

Mr. DUNNET: The next major recommendation of the Committee was that the Auditor General should have the right to recruit the professional and senior

staff he needs in the same independent manner as do other officers of parliament. The present section provides that:

Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the provisions of the Civil Service Act.

In order to give effect to the recommendation of the Committee, subsection (4) of section 65 has been modified and extended. The corresponding clause in the draft act is clause 6 on page 3.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I ask Mr. Henderson a question at this point. If these other crown corporations were brought under the audit of the Auditor General, would you anticipate a need for additional staff to look after the extra work?

Mr. HENDERSON: It would be necessary for me to engage additional staff, but I would hope in discussing the joint arrangements that we could continue to, and would want to, rely very heavily on the private firms presently there. However, we would need some more people on my staff.

Mr. MUIR (*Lisgar*): Well, I am thinking about the difficulties that you have had in recruiting staff.

Mr. HENDERSON: That is perfectly true, Mr. Muir, and if it should be decided that this additional work is to be given to me, then I do not anticipate any difficulties in meeting it, in the same manner that, at the present time, I am facing a very substantial additional auditing responsibility on the United Nations.

Mr. TARDIF: Mr. Chairman, if the Auditor General of Canada becomes a joint auditor of a crown corporation and of necessity has to have additional staff, that will mean that the auditor who is now employed by the crown corporation will be able to reduce the number of his staff.

Mr. HENDERSON: I would expect that.

Mr. TARDIF: Well, that would mean an adjustment in price.

Mr. HENDERSON: I would expect that.

Mr. DUNNET: Clause 6, which is before you, states:

The Auditor General may

- (a) appoint such officers and employees as are necessary to enable the Auditor General to perform his duties;
- (b) . . . prescribe the conditions of their employment with the approval of the Treasury Board;
- (c) prescribe the duties of such officers and employees; and
- (d) suspend from the performance of his duty or remove or dismiss any officer or employee so appointed by him.

Mr. TARDIF: Mr. Chairman, is it not provided in the new Public Service Act that the Deputy Ministers or the people in equivalent office to Deputy Ministers will have the authority to do just that?

Mr. DUNNET: I think it is all very much the same, other than that they would not necessarily be hired through the Civil Service Commission.

Mr. TARDIF: I think this is also covered in the new Public Service Act: that the deputy minister will be able to employ certain types of employees without referring them to the Civil Service Commission.

The CHAIRMAN: I doubt it very much.

Mr. TARDIF: I do not know what the section is, but that is so.

Mr. HENDERSON: It provides the delegation of the responsibility in such cases, but the employment is still by and large through the Public Service Commission. This would set up the office of the Auditor General in the same way as, I think, the representation commission, the National Film Board, the crown corporations, and other offices of parliament.

Mr. TARDIF: That would mean then that you would have to have a personnel staff.

Mr. HENDERSON: I have one now. I would be able however to operate with a smaller personnel staff, Mr. Tardif, than I am required to operate with now under the existing regulations of the Public Service Commission.

Mr. TARDIF: Do you have an employment officer or more than one in your personnel staff?

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Tardif, our staff is in the neighbourhood of 200. We have one man who looks after employing people, and two girls who look after the handling of the payroll.

Mr. TARDIF: I was not worried about the number of employees that you have doing that job. I was just wondering whether we are duplicating the job that is being done by the Civil Service Commission; and under the new Public Service Act, where there is a change that gives the deputy minister a lot more authority than he has now, whether it will require a larger personnel staff if you, your department, or any deputy minister for that matter, are going to select all your personnel.

Mr. LONG: We are in fact now selecting our people ourselves.

Mr. TARDIF: At the present time, I do not know why you are selecting your people yourself, if the Civil Service does it too.

Mr. LONG: Because departments that require experts have to provide expert assistance to the commission. All the commission does is see that the merit principle is observed.

Mr. TARDIF: I see.

Mr. BALDWIN: I suppose, equally, that the very heavy burden which the Civil Service Commission is now carrying in trying to find new staff, would be less. They would not need quite so many people either if you took on the responsibility.

Mr. TARDIF: The new Public Service Act does just that in many cases.

Mr. DUNNET: I should mention too, of course, that subsection (2) of the draft act requires that the salaries and expenses fixed by the Auditor General be approved by the Treasury Board.

Mr. BIGG: I hope I am not embarrassing the Auditor General by saying that this sounds a little like a monolithic affair. Does he act in this regard with his senior officers and advisors or if this came in, does he just sit in this ivory tower and say: "I want him; he is in" or "I do not want him; he is out". Of course, at the present time it may help you with your judgment. A tyrant of an Auditor General might find himself in a very unique position.

Mr. HENDERSON: I hope nobody can ever point his finger at me and say that I sit in my ivory tower and do not do any work, Mr. Bigg. Is that what you mean?

Mr. BIGG: No. It says that the Auditor General may appoint such officers and so on. I wonder whether that actually occurs, or whether you have an echelon of senior people who discuss their merits.

Mr. HENDERSON: Oh, indeed we do. I think perhaps Mr. Long would like to describe one or two type cases of how we operate when it comes to this. We usually end up finding a lot of these people ourselves.

Mr. BIGG: The act appears to give sweeping powers to an individual, if you will pardon my ignorance on the matter.

Mr. LONG: I think that it is because the Auditor General is the deputy head, and he has to take the responsibility. I can assure you that Mr. Henderson does not make personal decisions without consulting the staff. The directors of the office are in on all personnel matters. Mr. Henderson seldom knows about new people coming into the office until they are in.

Mr. BIGG: The way it is worded, it sounds as if it is a completely personal mandate.

Mr. LONG: I think there would be a problem in trying to word it any other way.

The CHAIRMAN: All right; proceed.

Mr. DUNNET: We have dealt with crown corporations and with staff. A further change in substance is the question of providing for the salary of the Auditor General. As you know, the present act provides that

The Auditor General shall out of the Consolidated Revenue Fund be paid a salary of thirty thousand dollars per annum.

That is the statutory amount and it is varied only by statute. Each time it is to be changed changed there is a separate statute. The change, in section (4) of the draft, provides that

The Auditor General shall out of the Consolidated Revenue Fund be paid each year a salary in an amount not less than the maximum amount of the salary payable to a Deputy Minister in the Public Service of Canada in such year.

Mr. BIGG: I think that section is rather restrictive. The people who run the Bank of Canada or any other bank have much less responsibility. Perhaps there should be an open sitting on this, at the discretion of Parliament.

Mr. HENDERSON: I do not know if the chairman would care to add anything to that, but I think perhaps it would be invidious for me to discuss this.

The CHAIRMAN: I made an observation when the act was before the House to advance the Auditor's General salary from twenty-five to thirty thousand by the Executive Council or by the Cabinet. I felt that the Cabinet setting the salary of the Auditor General, whoever he might be, was making him more directly a servant of the Cabinet rather than a servant of Parliament. I felt that the Auditor General's salary should be fixed either by an act such as this or by Parliament itself and not directly by the Executive Council or Cabinet, so that he would be more free, not so closely connected with Cabinet, and a servant of the whole of Parliament. Then, if you wanted to change the Auditor General's salary, an act such as this, with the proposed amendment, would have to be brought before Parliament and debated, and it would either be accepted or rejected.

Mr. TREMBLAY: Not in the case of this present act, because it is automatic.

Mr. BIGG: It would be a very good time to raise the ceiling a little because—

The CHAIRMAN: I should have gone a little further there. Mr. Tremblay has reminded me that this act ties in with the deputy minister and it would be automatic, since his salary would be related to it.

Mr. BALDWIN: Mr. Chairman, in answer to Mr. Bigg, there is no ceiling. This provides a floor; the salary shall be not less. In other words, this emphasizes the independence of the Auditor General, who should not in any way be dependent upon the branches with which he may frequently have to come into conflict in the course of his official duty. This takes the salary out of their reach, other than that when establishing, from time to time, salaries of deputy ministers, the Auditor General's salary shall not be less.

Mr. BIGG: Is it, in fact, more?

Mr. BALDWIN: It could be more; I see no reason why not.

The CHAIRMAN: It should not be less.

Mr. BIGG: It would satisfy me if I knew it was more. I do not think that the Auditor General's responsibilities are at the level of—pardon the expression—a junior deputy Minister.

The CHAIRMAN: It can be more; it can go as high as you like.

Mr. TARDIF: Mr. Chairman, I have no objection to this whatsoever, but I do not think the danger exists. I do not think there is any danger.

Mr. BIGG: Any danger of what? Going higher or lower?

Mr. TARDIF: There is a danger of going higher. I do not think there is any danger of going lower.

Mr. BIGG: No, but this is statutory.

Mr. TARDIF: I have no objection to that at all. I just think it is redundant.

Mr. LONG: I am sorry, Mr. Chairman, but I do not have any figures here. However, I did want to comment. Mr. Bigg mentioned the Bank of Canada. This draft act is not going as far as to set up the Auditor General with the independence of a crown corporation. His expenditures are still subject to Treasury Board control.

As far as the salary is concerned, you may recall that in Mr. Henderson's absence last year I gave you some figures on this. Theoretically, yes, parliament should set the salary—I think the figures that I gave you are in the minutes of proceedings—but the fact is that Parliament can only do this when something is put before them. I believe the Government has to submit any bill that involves the expenditure of money, and the actual history of it is that such bills come before Parliament, as far as the Auditor General and some other people who are paid in this way are concerned, after much longer intervals than elapse between changes in deputy Ministers' salaries.

Mr. BIGG: I am afraid I did not make myself quite clear. Certainly, the Auditor General could not make a recommendation to raise his own salary. If our committee is recommending that all the financial responsibility of Canada be taken by one man, certainly we cannot expect him to take this responsibility at a rate of pay generally paid to those with much less responsibility. If we are going to change the whole act, I would like to see that Auditor General suitably remunerated so we will not have to come back to Parliament at another time. Why not write it into the act that he be suitably paid. Personally, I do not like the idea of saying that we must not pay him more than a deputy minister.

Mr. LONG: This says not less than a deputy minister.

Mr. BIGG: My experience with the Civil Service has been that when they talk about floors, that is what you get. If you say that mounted policemen are not to get less than \$400 a month, I would expect them to get exactly \$400. I do not wish it related that way to our Auditor General.

Mr. BALDWIN: It is not necessarily the deputy minister who receives the highest pay. This sets the floor for the Auditor General.

Mr. BIGG: I was trying to make the point that this is not a proper remuneration for this particular job.

Mr. SOUTHAM: Could I interject a remark here in support of what Mr. Bigg, I think, is getting at. Could we have incorporated in this new act a formula provision, where the Auditor General's salary would come under a definite periodic review to ascertain whether or not it is adequate. This would solve this problem without the Auditor General or Parliament itself taking the initiative. It could be written in the act that his salary would be reviewed at various periods—something similar to the public service or some similar act.

The CHAIRMAN: That is a good suggestion: periodic review every three years, or something like that.

Mr. FORBES: Mr. Chairman, I was wondering if Mr. Bigg and Mr. Southam were thinking the cost of living was going to go up.

Mr. SOUTHAM: We must bear in mind that the Auditor General has very onerous duties and that his salary should be reconsidered at periodic times without him having to take the initial step.

Mr. TARDIF: Mr. Chairman, the problem actually is how much of it is deducted at source. The rest of it does not count too much.

Mr. LONG: Might I suggest that anyone interested in this, look at page 277 of the Minutes of Proceedings of May 12, 1966, where you will see a comparison of certain salaries.

The CHAIRMAN: Thank you, Mr. Long.

Mr. DUNNET: There is only one other change of substance in the draft act, and that is reflected in section 19. At the present time, section 75 of the Financial Administration Act requires that the accounts of the Auditor General be examined by an officer nominated by the Treasury Board. The change provides that the person appointed to examine and certify the receipts and disbursements of the Auditor General and his office will be nominated by the House of Commons.

Mr. HENDERSON: Mr. Chairman, I think this was in line with the committee's own recommendation. You will recall that this was one of your recommendations, and this was the manner in which it was given effect to in the proposed draft legislation.

The CHAIRMAN: I note that the House of Commons, by resolution, would appoint a person to audit the accounts the Auditor General. I wonder how that would work. Would the resolution appear on the order paper, Mr. Baldwin. Would that be the procedure?

Mr. BALDWIN: It might, or the Public Accounts Committee might even, as a part of their annual terms of reference recommend to the House a person who should do it because, as we all know, the House of Commons sometimes takes quite some time to debate matters.

The CHAIRMAN: Especially one like this.

Mr. BALDWIN: If they would refer this to a smaller committee we might be a little more expeditious.

The CHAIRMAN: They would likely refer it to the Public Accounts Committee to nominate someone.

Mr. BALDWIN: I would think so.

Mr. DUNNET: That covers the major or substantial changes in the existing act, all of which have been made in pursuance of the recommendations of the Public Accounts Committee. The Public Accounts Committee has said that "it is fundamental that the Office of the Auditor General be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants." The changes made are in accordance with that thought. There is no change in the duties of the Auditor General. He is just given more work and the means with which to acquire the staff to perform the work.

The CHAIRMAN: Gentlemen, we have heard this morning the results of recommendations made by this Committee, as formulated in the form of a proposed act. These four recommendations we made were in respect of the staff of the Auditor General's Department, crown corporations and his function therein, the salary of the Auditor General, and who should audit the Auditor General's Department. We discussed then and we have asked them to be drawn up in a proposed act. Now, where do we go from here? The steering committee

suggested that a subcommittee be appointed to look into this in more detail. Then, from previous discussion here this morning, I would think that this report would come back here. You may then wish to spend more time on it and take into consideration Mr. Ballard's suggestion of looking at the previous and proposed regulations, side by side.

Would you like to appoint a subcommittee or do you want it to be discussed further the whole committee present?

Mr. BALDWIN: Mr. Chairman, I was not at the subcommittee meeting. At first, the idea seemed to be all right. The four changes which have been made have been put in perspective. They are fairly simple principles. You may be for them; you may be against them, but the principles are easy to absorb. I would think that following this there might be a memorandum prepared. Mr. Southam and Mr. Tardif said that we might refer to the previous acts which are being amended and changed, and we could quote them in full. We could, also refer to our recommendations, where they are to be found and where they should apply. We could have all this material before us. Mr. Tardif and Mr. Ballard said they would like time to look at all these things. I certainly would like to have a careful examination of that memorandum.

Mr. BALLARD: I would prefer to see the whole committee consider this in accordance with the suggestions made previously. For example, I would like to debate section 19 at some length. This is the one where you have an auditor examine the accounts of the Auditor, as Mr. Tardif said. In this case it is an auditor to examine the Auditor General. I do not agree with what has been laid out in section 19. As long as we have an opportunity to debate this in full, I will be satisfied. I think this should be done in the committee of the whole rather than in a steering committee or a subcommittee.

The CHAIRMAN: Thank you, Mr. Ballard. If that is agreed, a memorandum, as suggested by Mr. Baldwin, will be prepared and when it is ready, the committee will be notified.

What would you like to proceed with at the next meeting next Tuesday? Will the follow-up report be ready then or will we proceed with the witnesses of Crown Assets Corporation?

Mr. HENDERSON: The follow-up report is now in its final stages of completion, Mr. Chairman. In fact, this morning it went to the Translation Department. Unfortunately, we will not have the French translation in time for next Tuesday. I would like to know if it is your wish that I bring the English copies to the meeting and you could then proceed on that basis or would you wish me to hold it up. I should explain to you that it is quite lengthy because we are dealing with 64 recommendations of this Committee, going back a number of years. You are perhaps familiar with the list of recommendations that the Committee attached to its last report, tabled on March 2. In view of the limited time, we have had to check very carefully into the status of each one. While we have knowledge of the current situation through our work in the departments we have, at the same time, been checking with various deputy ministers and in some cases, as I think perhaps the Chairman can tell you, he has received replies from the ministers pursuant to your arrangements. This will be ready for Tuesday.

Mr. TARDIF: How long will it be, Mr. Chairman, before we have the French translation? It is not that I do not understand English well but I am just wondering if we might eliminate the possibility of criticism?

Mr. HENDERSON: My information is that it will be all of a week, Mr. Tardif. It will probably be a week today. I cannot guarantee that without rechecking with the Translation Department. They give us excellent service but there are considerable other requests being made.

Mr. BIGG: Next Tuesday will be the first meeting.

Mr. LEFEBVRE: It will be on the follow-up report, and the translation will be ready Thursday?

Mr. HENDERSON: I would hope so. That is our target date.

Mr. LEFEBVRE: Next Tuesday we would still have the simultaneous translation services here. Perhaps that would be fine for one meeting, but if we intend to go on for two or three meetings, then I think we should wait.

The CHAIRMAN: In other words, we could go on with the English on Tuesday on the understanding that the French translation will be ready by Thursday?

Mr. LEFEBVRE: I think everyone will be in agreement with that.

The CHAIRMAN: If there is nothing further, gentlemen, we will adjourn the meeting.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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Translated by the General Bureau for Trans-
lation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

16

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 34

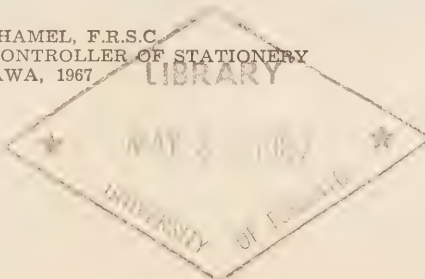
THURSDAY, APRIL 20, 1967

Public Accounts, Volumes I, II and III (1966)
Report of the Auditor General to the House of Commons (1966)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. G. R. Long,
Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Southam,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Tardif,
Mr. Cameron	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Dionne,	Mr. Noble,	Mr. Tremblay,
Mr. Flemming,	Mr. Racine,	Mr. Tucker,
Mr. Forbes,	Mr. Schreyer,	Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, April 20, 1967.
(46)

The Standing Committee on Public Accounts met this day at 10.15 a.m. The Vice-Chairman, Mr. Tom Lefebvre, presided.

Members present: Messrs. Baldwin, Bigg, Flemming, Lefebvre, Morison, Muir (*Lisgar*), Noble, Schreyer, Southam, Tardif, Thomas (*Maisonneuve-Rosemont*), Tucker (12).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Hayes and Laroche of the Auditor General's Office.

The Vice-Chairman read a letter from the Chairman addressed to Ministers of Departments respecting Committee recommendations. (*Entered as Exhibit XVII*)

The Vice-Chairman tabled the following letters received by the Chairman from:

- (1) The Deputy Minister of National Defence—March 9, 1967;
- (2) The Deputy Minister of Transport—March 14, 1967;
- (3) The Assistant Auditor General—March 21, 1967;
- (4) The Deputy Minister of Manpower and Immigration—March 22, 1967;
- (5) The Minister of Agriculture—March 31, 1967;
- (6) The Minister of National Defence—April 6, 1967;
- (7) The Secretary of State for External Affairs—April 12, 1967;
- (8) The Minister of Northern Affairs and National Resources—April 14, 1967.

On motion of Mr. Southam, seconded by Mr. Bigg,

Resolved,—That the above letters be attached to today's Minutes of Proceedings and Evidence as Appendices (*see Appendices 27 to 34 both inclusive*).

The Vice-Chairman tabled the Auditor General's Follow-Up Report 1966.

Moved by Mr. Tardif, seconded by Mr. Thomas (*Maisonneuve-Rosemont*),

Resolved,—That this report be studied and not appended at this time to the Minutes of Proceedings and Evidence.

It was *unanimously agreed*,—That the Auditor General be permitted to absent himself from the Committee meetings May 2 and May 4, 1967, to attend a meeting of the Panel of the External Auditors of the United Nations in Paris, France.

It was *unanimously agreed*,—That the President of Crown Assets Disposal Corporation be invited to appear before the Committee May 2 and May 4, 1967.

The Committee reviewed paragraphs 1 to 19 of the Auditor General's Follow-Up Report 1966.

At 11.35 a.m., discussion continuing, the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, April 20, 1967.

The VICE-CHAIRMAN: Gentlemen, I will call the meeting to order. Mr. Hales has asked me to preside at this meeting in his absence. I will follow the agenda that Mr. Hales prepared.

First of all, I will ask for a motion to attach as appendices to the Minutes of Proceedings and Evidence of this meeting, eight letters from various ministers and officials to the Chairman of the Public Accounts Committee. These letters are in reply to letters from Mr. Hales on behalf of our Committee to these various ministers. I will read Mr. Hales' letter, but I think we can just attach the replies because they are quite numerous.

Dear Sir:

This is further to the request of the Public Accounts Committee which was included in its Third report, 1966, presented to the House on June 28, 1966 that in respect of its recommendations "the Minister of each department concerned advise the Chairman of the Public Accounts Committee and the Auditor General within three months as to what action has been taken or is to be taken on matters on which the Committee has made recommendations in this and subsequent reports."

Since that time you have been provided with pertinent copies of the Committee's reports as they were tabled.

The purpose of this letter is to ask you to send the above advice directly to the Auditor General during any period when there is no Committee or when the House is not in Session. In this way the Auditor General will be kept abreast of the status of the various Committee recommendations and will be able to furnish a follow-up report to the Committee at any time on short notice.

A copy of the Fourteenth Report is enclosed, which contains a list of items on which the Committee has made recommendations (see page 8).

Your kind cooperation in this matter would be much appreciated.

Yours sincerely,

Alfred D. Hales, M.P., Chairman.

Now, gentlemen, we will need a motion to the effect that this letter and these replies that I have just read be attached.

Mr. SOUTHAM: I so move.

Mr. BIGG: I second the motion.

Motion agreed to.

The VICE-CHAIRMAN: The second item on the agenda is a review of the Auditor General's—

Mr. TARDIF: Mr. Chairman, before you proceed, do the replies agree to the request or disagree, generally?

The VICE-CHAIRMAN: As a matter of fact, some of them agree and some of them disagree on various points, but do you think we should read out every letter here?

Mr. TARDIF: Even if every letter is not read out, would it not be a good idea to say who agrees and who disagrees, or whether the majority agrees or disagrees?

The VICE-CHAIRMAN: Yes. Well, Mr. Henderson, would you mind giving a—

Mr. A. M. HENDERSON (*Auditor General*): That will become evident, Mr. Tardif, when we reach the next item and my Follow-up Report is tabled. You will see them in perspective and you will see the replies that have been sent in up to March 31 and reference will be made to the ones that have come in since that date—the ones that the Chairman speaks of now. They could, perhaps, be read as you scan the items. We have had, I think, five letters in the past two days. But, everything up to March 31 is in the Follow-up Report. That is the date of it. So, if it is satisfactory to the Committee, you might like to proceed with the tabling of the Follow-up Report and pick it up from that point.

The VICE-CHAIRMAN: We can now give copies of this report to the representatives of the press here according to the rules and regulations. I think every member has received a copy of this now.

Mr. SCHREYER: No, I have not; at least I do not think I have.

The VICE-CHAIRMAN: I do not think you have, because they have been received just this morning.

Now, before we proceed directly—

Mr. TARDIF: Mr. Chairman, this is a very important report and probably it contains a lot of things that we should read about before it comes to the Committee for a decision. Would it not be possible for a report of this importance to be given to the members of the Committee a week preceding the meeting at which it is going to be discussed?

The VICE-CHAIRMAN: Mr. Tardif, the report was prepared only yesterday and, I believe, the French translation only this morning, so we do not have to take a position, I think, on any of these items this morning. But perhaps we could just go through it quickly and give the Committee members a chance to study it between now and our next meeting, or the following meeting.

Mr. TARDIF: Yes, except that it will be published in the press as presented without the changes that may be made.

The VICE-CHAIRMAN: It can be noted, probably, by the representatives here that there may be some changes because this has not been adopted by the Committee.

Before we go into the Auditor General's Follow-up Report, I believe Mr. Henderson has a few announcements that he would like to make of great importance to the Committee in connection with work that will be coming up. Mr. Henderson, would you like to inform the Committee on a few of these points?

Mr. HENDERSON: Indeed, Mr. Chairman. I had already spoken with the Steering Committee concerning this matter when they were discussing the arrangements for the meetings last week and I believe that the Chairman intended to speak to this himself this morning, but your Acting Chairman has asked me to explain it.

I explained to the Steering Committee, that as early as last December, in my capacity as the Chairman of the Panel of External Auditors of the United Nations and Specialized Agencies, I had called a special meeting in Paris for the week of May 1, which means that I will be absent for your two meetings on Tuesday, May 2 and Thursday, May 4, but I shall be returning home on Monday, May 8, and will therefore be available again on Tuesday morning, May 9.

I believe the members of the Committee know that for the past 18 months I have been serving as Chairman of the Panel of External Auditors of the United Nations and specialized agencies, and the purpose of my meeting is to meet with the Auditors General of the eight countries comprising this panel; all of us who serve as External Auditors of the United Nations family. This is a particularly important meeting since we are charged by the Secretary-General, U Thant, with advising him concerning extensive recommendations made by the Ad Hoc Committee of Experts on the Finances of the United Nations in connection with audit and inspection procedures throughout the UN family. I wish to explain this to you because if it had been a matter of lesser importance I would have cancelled it since I believe that my attendance here is my first duty. So, Mr. Chairman, I should like to know if it would meet with the approval of the Committee if I absent myself. Before they express themselves perhaps I should explain that your Steering Committee had in mind calling Crown Assets Disposal Corporation to appear on those days and I believe the Clerk has already arranged this. The Assistant Auditor General, Mr. Long, and Mr. D. A. Smith, my director in charge of the work of Crown Assets Disposal Corporation will be here with the corporation's witnesses, if it is your wish to proceed on those lines. I do not know quite what the status of this invitation is, but perhaps the Clerk could indicate what reply he had from Crown Assets Disposal Corporation.

The CLERK OF THE COMMITTEE: I just spoke to the Chairman; I called Mr. Richard, but this was informal.

The VICE-CHAIRMAN: He has not signified his intention of appearing?

The CLERK OF THE COMMITTEE: He has not said, no.

The VICE-CHAIRMAN: He has not said "no", but he has not said "yes". What is the feeling of the Committee?

Mr. TARDIF: What do you mean, Mr. Chairman, that he has not said, "yes"? Do we not tell him that we want him to appear on a certain date?

The VICE-CHAIRMAN: If we tell him we want him to appear, he will eventually have to appear, but he might be already committed. Like yourself or any other person, he might be tied up on a certain date.

Mr. TARDIF: Do not use me as an example; I come when I am told.

The VICE-CHAIRMAN: Well, anyway, we do not know right now whether these dates are firm. Do we take a vote, then, that we ask the Crown Assets

Disposal Corporation people to be here on these dates? Is this the wish of the Committee?

Mr. BIGG: What dates?

Mr. HENDERSON: Tuesday, May 2 and Thursday, May 4.

The VICE-CHAIRMAN: Does this meet with everybody's approval?

Some hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Now, are there any other comments on the Auditor General's remarks regarding his absence? Does anybody wish further information on this, or is this agreeable also?

Mr. SOUTHAM: Mr. Chairman, I feel that in light of the explanation by Mr. Henderson of the importance of this meeting, our Committee would be glad to give agreement to his absentsing himself for this special occasion.

The VICE-CHAIRMAN: Fine. I thought perhaps somebody was going to suggest that we all accompany him, but this is not the case.

Mr. TARDIF: Nobody suggested that this meeting be held in Toronto?

The VICE-CHAIRMAN: No.

Now, before we go on, I would like to have a motion that the Follow-up Report be attached as an appendix to today's proceedings.

Mr. TARDIF: Which Follow-up Report? This one here?

The VICE-CHAIRMAN: Yes.

Mr. TARDIF: Without having it studied by the Committee?

The VICE-CHAIRMAN: Well, this is a fine point and I think you are—

Mr. TARDIF: But this, Mr. Chairman, is equivalent to agreeing to it in principle. And if you agree to it in principle, and you include it as an appendix, then—

The VICE-CHAIRMAN: I was just going to comment on this. I think your point was well taken. I do not know how we can attach it before agreeing to it. Really, this is the point. Should we go through it and decide at the end of our meeting today whether or not we should attach it as an appendix? We might have to study it for a meeting or two before we do so.

Mr. TARDIF: I would say, Mr. Chairman—and I do not want to do all the talking on this—that before we agree to attach this report as an appendix, we at least have to read it.

Mr. SCHREYER: I am not sure that there is any procedural difficulty. We can have a motion to have it attached without committing ourselves to its adoption in total.

The VICE-CHAIRMAN: Mr. Schreyer, I think you have a point, also. Attaching it does not necessarily mean to me that we approve it, Mr. Tardif.

Mr. TARDIF: It is equivalent to approving it in principle and personally I would be opposed to that.

The VICE-CHAIRMAN: Well, we could have a motion to the effect that we do not approve it in principle, but we certainly want to attach it to our proceedings.

Mr. TARDIF: Why do we not have a motion to study it first and then, if we decide that it should be attached, it can be.

The VICE-CHAIRMAN: This is acceptable to the Chair. I have no objections of my own to this.

Mr. TARDIF: I so move.

Mr. THOMAS (*Maisonnette-Rosemount*): I second the motion.

The VICE-CHAIRMAN: It is moved by Mr. Tardif and seconded by Mr. Thomas that this Follow-up Report be studied and then brought back at a future meeting for a decision on whether it is to be attached as an appendix to the Minutes of Proceedings and Evidence.

Mr. BIGG: Do you know of any advantage in attaching it now?

The VICE-CHAIRMAN: I know of no particular advantage to attaching it now. Is this agreeable?

Motion agreed to.

The VICE-CHAIRMAN: Then it will not be attached as an appendix but we can start—

Mr. TARDIF: It will not be attached at this time?

The VICE-CHAIRMAN: No, not at this time.

Perhaps Mr. Henderson could give us a brief summary of this—I believe it is about 30 pages in all—so that we can then begin a study of the follow-up report itself. If you would care to make some comments it might inform the members on the most important parts.

Mr. HENDERSON: Gentlemen, this is my follow-up report on the 64 outstanding recommendations of the Public Accounts Committee, including the 49 recommendations which appeared in Appendix I to my 1966 report and 15 which were included in the last six reports of this Committee to the House.

As you know, a number of these outstanding recommendations go back many years. The comments placed after each item reflect the best information available to the audit office as at March 31, 1967. On page 29 of this follow-up report, which is the last page, there appears a brief summary of the position of these 64 recommendations. It shows that up until March 31 last six of the 64 had been implemented in full.

The members will recall that a revised directive was decided upon and issued by the Committee in June of last year concerning the manner in which the Committee recommendations would be sent to the minister of each department concerned, with the request that he advise the chairman of the Committee and the Auditor General within three months on what action has been taken or is to be taken on matters on which the Committee has made recommendations.

I would remind the members that this responsibility was placed directly on the minister of each department concerned so that note would be taken of the Committee recommendation right at the top of the department and action thus started more promptly to implement the recommendations. You decided that your Chairman should send the ministers concerned copies of your reports after I gave you my follow-up report a year ago—that was on February 28, 1966—in which, you will recall, I could report at that time that only 10 recommendations

had been implemented and 40 still remained to be implemented. That was a year ago.

As we go through each of the 64 recommendations in this follow-up report today you will see that in many cases helpful replies have been sent in by several deputy ministers, while the audit office itself has been able to provide up to date explanations in other cases. However, in 28 of the 64 cases I must advise you that no letters or advice have yet been received from the ministers of the departments concerned, as requested by the Committee a year ago. It must be remembered, of course, that at March 31 the three month period had not yet expired since the last five committee reports containing 15 recommendations were tabled.

I have a list of the 28 cases in which no replies have as yet been received, and I can refer to them very readily as we leaf through the pages, Mr. Chairman, if that is your wish.

The VICE-CHAIRMAN: Yes, I think that would be all right.

Mr. BIGG: I understand that this is the recommendation of the 1966 report. Is that correct?

Mr. HENDERSON: Of my 1966 report? Yes, as well as the ones that this Committee made in its reports through the fourteenth report, which were tabled on March 2, 1967.

Mr. BIGG: Would they be expected to reply before we have gone through your 1966 report and agreed with it?

Mr. HENDERSON: Yes, because your reports are sent by the Chairman to the Minister at the time they are tabled in the House, and the 90 days that you stipulated is said to run from then.

Mr. TARDIF: Mr. Chairman, I have a supplementary. What appears as a recommendation in the 1966 report, and which has not been studied by the Committee, is tabulated with the recommendations that have not been attended to.

Mr. HENDERSON: No, these are matters on which the Committee has made recommendations, not matters on which I have made recommendations. They are all Committee recommendations.

Mr. TARDIF: On a report that has not been studied? Did you not just say that some of the recommendations that bear on the 1966 report are added to those—

Mr. HENDERSON: They appear as Appendix I at the back of my 1966 report which gave all the matters on which no action has been taken, when that report was tabled in the House last February. The Committee itself added 15 more when it finished tabling its own reports early in March, and that is how you get 64.

Mr. BIGG: The point I was trying to make was that I did not want it to be confused with what looks like lack of co-operation. If the present recommendations which we have not studied are included in the total figures it seems to make a better picture.

Mr. HENDERSON: These are all recommendations which you have not only studied but which you have made to the House. They are all Committee recommendations which we are talking about here, Mr. Bigg. You will recognize them

as we run through them. The follow-up report shows the status as at March 31, 1967, of the 64 recommendations which this Committee has originated and made.

Mr. TARDIF: But how can we include recommendations which were made by the Committee on a report which we have not yet studied? I may be confused, I do not know, but I understood that there were some recommendations tabulated with the recommendations that we made last year that are part of the 1966 report. So far as I know the Committee has not yet studied the 1966 report.

An hon MEMBER: That is my point, too.

Mr. HENDERSON: None of the recommendations came out of my 1966 report at all; they have their origin in my 1960, my 1961, my 1962 and subsequent reports and they are still not implemented and they appear here and we give you the status.

Mr. BIGG: They have been repeated in the 1966 report, is that all?

Mr. HENDERSON: I beg your pardon?

Mr. BIGG: Have they been repeated in the 1966 report?

Mr. HENDERSON: I put an appendix in the back of my report each year listing the recommendations which you as a Committee have made and on which no action has yet been taken. This is for your assistance and our guidance.

Mr. MUIR (*Lisgar*): Did they add up to 64, Mr. Henderson?

Mr. HENDERSON: They added up to 49, but you as a Committee made 15 additional ones covering your work last fall.

Mr. BIGG: These are all previous to the 1966 report, then?

Mr. HENDERSON: Yes.

Mr. BIGG: It did not sound like that to me. In the summary you say there are 64 unfinished business items.

Mr. HENDERSON: There are 49 plus your additional 15, that is right.

Mr. BIGG: Yes, but theoretically there might be a good deal more by the time we are finished with the 1966 report.

The VICE-CHAIRMAN: In other words, Mr. Henderson, there is nothing new in this that we have not recommended before. The only reason they are in the 1966 report is because they are a carry-over from previous reports?

Mr. HENDERSON: That is right.

The VICE-CHAIRMAN: Does that answer your question, Mr. Tardif?

Mr. TARDIF: Yes, it does.

Mr. BIGG: I understand now. I thought this meant that we were including all the recommendations in the 1966 report which we have not yet studied.

Mr. SOUTHAM: Mr. Chairman, Mr. Henderson stated that a number of the ministers had met with our request for reports. How do you analyse the fact that a certain number have not done so? What is your observation on this matter?

Mr. HENDERSON: In the course of preparing the follow-up report we checked out the status of each recommendation—what is being done about it and whether

or not replies have been received—through our work in the department or by speaking to them.

Mr. SOUTHAM: Do you anticipate that the ministers heading these other departments will comply with our request or—

Mr. HENDERSON: I have every hope that in due course they will come. When you see their nature you will recognize a number that still remain unresolved.

The VICE-CHAIRMAN: This appears on page 220 of your 1966 report, if you have it with you, under the heading: "Recommendations And Observations By The Standing Committee On Public Accounts Not Yet Implemented Or Dealt with By Executive Action". This is Appendix I on page 220.

Mr. MUIR (*Lisgar*): Mr. Chairman, I would move that we get on with the report.

The VICE-CHAIRMAN: Would you proceed, Mr. Henderson?

Mr. HENDERSON: As I told you, the summary of the position of the 64 recommendations appears on page 29, which is the last page, and we have indicated here the various categories in which progress is being made, where the action taken has not proved satisfactory or where the action taken has not produced results.

The VICE-CHAIRMAN: Would you explain to me—maybe I am confused now—the difference between "Action taken not satisfactory" and "Action taken not producing results"?

Mr. HENDERSON: If you will just look at item 21 and item 18 or I would invite your comments when we come to them. If we run through it we could perhaps—

The VICE-CHAIRMAN: Would it be agreeable if we started with these two?

Mr. HENDERSON: Yes. You might like to take item 21 first.

Mr. TARDIF: Mr. Chairman, the number on the items that are listed here is the number on the items as they appear in the 1966 report?

The VICE-CHAIRMAN: As they appear in the appendix, I believe.

Mr. HENDERSON: As they appear in the appendix.

The VICE-CHAIRMAN: In the appendix to the 1966 report.

Mr. TARDIF: What would you have to do to look it up? Would you have to go back to the 1965 report if it is a recommendation that applies to that?

Mr. HENDERSON: You have it right in the 1966 report, but in addition to that you have it in the follow-up report.

Mr. TARDIF: Under the same number.

Mr. HENDERSON: It is the exact wording.

The VICE-CHAIRMAN: You also have it in your follow-up report.

Mr. HENDERSON: Did you want to go to No. 21 first?

The VICE-CHAIRMAN: Does that meet with the approval of the Committee?

Mr. HENDERSON: Or do you want to start at No. 1 and pick them up as you go through? I am entirely in your hands.

Mr. TARDIF: Mr. Chairman, I think we should go item by item.

Mr. HENDERSON: From the beginning?

The VICE-CHAIRMAN: It might be less confusing. Some of us are already confused this morning.

Mr. HENDERSON: The front sheet merely reminds you of the reports that you have made in which these recommendations have appeared. We might, therefore, turn to page 2. The first one, as you will see, had its origin in 1963. It is "Second Class Mail." I think all the members are familiar with what their recommendation was on that. There has been no action on this as yet. It was only on Monday of this week that we received a copy of a very helpful letter from the Deputy Postmaster General.

Mr. TARDIF: Mr. Chairman, is it not generally the accepted practice that if the recommendation is made by the Committee the minister responsible gives the reason why it is implemented or why it is not? Is it not done that way?

The VICE-CHAIRMAN: In my experience I cannot say Yes or No, but I would be willing to say that it does not necessarily mean that it will be followed. This is my opinion, if you want it.

Mr. TARDIF: I know, but the Committee makes a recommendation to the responsible minister, does it not?

Mr. HENDERSON: It makes the recommendation to the House and it is drawn to the Minister's attention.

Mr. TARDIF: It is eventually drawn to the Minister's attention. Does the Minister who is affected by these recommendations that are made by the Committee give a reason why the recommendations are either implemented or not implemented?

Mr. HENDERSON: We receive very good replies. They indicate their views on it. If they have disagreed with it they have not hesitated to say so, and for that reason I think the replies merit your attention.

Mr. BIGG: Do they invariably answer one way or another?

Mr. HENDERSON: That is what the Committee is seeking, recognition of its existence from them.

Mr. SOUTHAM: Mr. Chairman, referring to Item No. 1, I suggest that we have the letter right now from the Deputy Postmaster General so we will have an idea what his views are on the matter.

The VICE-CHAIRMAN: We have already had a motion that we do not read the replies. I am ready to—

Mr. TARDIF: That is a very excellent idea, though.

The VICE-CHAIRMAN: I have no objection, but we will have to make another motion that each letter be read. Is this what you want to do?

Mr. BIGG: I think a short explanation might be in order.

Mr. SOUTHAM: I think we should get the Minister or the Deputy Minister's view on these recommendations; otherwise our work is futile.

Mr. MUIR (*Lisgar*): In the case of No. 1, I think the Auditor General's statement on this would be all right.

Mr. BIGG: Perhaps if we got the gist of the letters, where it is known, it might save time.

The VICE-CHAIRMAN: Referring to item No. 1 on page 2, if you will notice, the last paragraph in heavy black print reads:

In a press dispatch on October 17, 1966 (the date the Committee's Fourth Report 1966 was presented to the House) the Postmaster General was quoted as saying that legislation will be introduced early in the 1967 session of Parliament to increase second class mailing rates.

This will probably give you an idea what his reply will contain.

Mr. HENDERSON: The letter from the Deputy Postmaster General covers a number of things.

The VICE-CHAIRMAN: How many pages does it contain, Mr. Henderson?

Mr. HENDERSON: It is a five page letter, but he does refer to second class mail. Perhaps Mr. Long could just cover second class mail for you.

Mr. TARDIF: If we deal with an item that has to do with the Post Office and we read the letter once we probably would remember. This would apply to other items as well. I think as this is the first time we should have the letter read.

The VICE-CHAIRMAN: You want the letter read right now?

Mr. TARDIF: I would imagine that that would be the intelligent way to do it.

Mr. BIGG: Just those relevant parts that refer to second class mail.

Mr. TARDIF: If you read the complete letter once today we will remember it.

An hon. MEMBER: There are seven pages to the letter.

The VICE-CHAIRMAN: Do we have agreement here? Do we read the whole letter or just those parts relating to second class mail?

Mr. NOBLE: Mr. Chairman, would this explanation at the bottom of each one of these that are enumerated not give enough information? I think we could dispense with reading all those letters. We are going to be a long time getting through this report if we continue at this rate.

The VICE-CHAIRMAN: This last paragraph that I just read, Mr. Noble, in my opinion shows the intent of the Minister to approve the recommendations. Would this be a correct surmise of this last paragraph, Mr. Henderson?

Mr. HENDERSON: We felt that it was a piece of information that the Committee would want to have. It is quite true that I am quoting a press dispatch, but in our search for information we have recourse to—

The VICE-CHAIRMAN: Well, perhaps we should go on.

Mr. MORISON: Why do we not read that letter and find out what is in it and then we will have it.

The VICE-CHAIRMAN: Let us have the letter and then we can argue later. Will you read the letter, please?

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Chairman, I would repeat that this letter came in after the follow-up report was prepared. That is the reason that some of this is not in the report. This letter was received last Monday. In order to give you continuity I will have to read two portions of the letter because the Deputy Postmaster General has commented first on the paragraph in the 1966 report on the same subject and then when he comments on the Committee recommendation he refers back to this. For the sake of continuity I think you should have the two.

Mr. TARDIF: Mr. Chairman, you say that he comments on part of the 1966 report. Is it exactly the same thing that appeared in 1965?

Mr. LONG: The same subject, yes.

Mr. TARDIF: The same subject. The same recommendation?

Mr. LONG: Yes.

Mr. TARDIF: Is that added as two recommendations that have not been attended to?

Mr. LONG: No, just one.

Mr. TARDIF: Just one. I was just asking you.

The VICE-CHAIRMAN: That is fine.

Mr. LONG: In referring to second class mail, and more specifically to paragraph 114 of the 1966 report, this is what he said:

The question of postage rates on Second Class mail, as you are no doubt aware, is covered by current recommendations to the Cabinet proposing both changes in regulations concerning eligibility for these privileged rates and upward revision of the rates themselves.

The proposals for upward revision are based on a very thorough analysis of all the factors relative to handling the various categories of publications carried during 1965.

It is our hope that legislation will come before the House before the end of the calendar year 1967, including increases in rates and changes in regulations which may restrict the number of publications which may be eligible for the privileged rates. Also in the process of revising regulations we have recommended changes which greatly simplify the administration of the rates both from the standpoint of the Postmasters and from the standpoint of the mailers. The present regulations are difficult to administer.

The extent of any rate increase will depend upon the policy which the government may wish to apply to the cost/rate relationship of Second Class mail. As you will note at page 71 of the Auditor General's Report, the excess of cost over revenue is increasing annually and our forecast for 1967-68 is that this deficit will amount to \$26,000,000 on statutory publications and \$9,200,000 on regulatory publications.

The revenue and cost forecast for 1967-68 for Second Class mail may be divided as follows:

Revenue		\$ 9,500,000
Costs:		
— Post Office Operations (mostly salaries) ..	\$26,800,000	
— Transportation	12,700,000	
— Financial Administration	200,000	
— General Administration	500,000	
	<hr/>	
Total Departmental Costs	\$40,200,000	
Add: Interdepartmental costs	4,500,000	
	<hr/>	
		\$44,700,000
		<hr/>
Deficit		\$35,200,000
		<hr/>

That is the reference to the paragraph in the 1966 Report.

On the Committee recommendations, the Deputy Postmaster General has this to say:

I believe my comments in regard to paragraph 114 of the 1966 Report explain the dilemma in which the Post Office Department finds itself in regard to dealing with this vexatious problem.

On the part of this Department there has been very considerable and very detailed research and analysis of the whole situation and, as indicated re Paragraph 114 above, we hope to have a Cabinet decision on legislation this year.

In our comments on the Glassco Commission recommendations you will find further observations which relate to this question of Second Class, particularly in so far as making up to the Department any deficiency as a result of rates fixed by Parliament at less than cost is concerned. If Parliament should decide that a policy of handling Second Class mail at less than cost is the right one for Canada, then I believe that an amount equal to such deficiency should be voted annually by Parliament to help defray Post Office costs so that other classes of mail will not have to bear this excess of cost over revenue.

I would also like to emphasize that over 85 per cent of costs attributed to each of First Class, Second Class, Third Class and Fourth Class mails are direct costs, and this is taken into consideration in our Cost Ascertainment System by which we determine the share of cost attributable to Second Class mail.

On the revenue side, Second Class mail is one of the few classes of mail or postal service for which the precise revenue is known by means of the accounting system. Therefore there can be no question raised concerning the amount of revenue attributed to Second Class mail.

I assure you that Second Class mail regulations and rates is one of the most troublesome and difficult problems confronting the Department and a solution will be most welcome.

Mr. MUIR (*Lisgar*): Mr. Chairman, this forecast which is established for 1967, is that all on second class mail?

An hon. MEMBER: It is all on second class mail, the total amount.

Mr. BIGG: Well, this seems to show that at least somebody in the department does take very strong notice of our recommendations.

Mr. HENDERSON: I assure you that deputy ministers uniformly are extremely helpful to us, as you know, both from their testimony before the Committee and in the explanations which they furnish us, and we are indebted to them for a great deal of the comment in here. You will observe this as we run through these items.

Mr. SOUTHAM: This is the reason, Mr. Chairman, I felt, after making recommendations to the ministers that they take certain action or bring their views to our attention, that we were only justified as a Committee—and should be—to read and listen to their comments so that we can get their best advice. Otherwise what is the use of our sitting around studying these things if we do not get both sides of the picture.

Mr. MUIR (*Lisgar*): Would you consider some of the comments made by the Postmaster General as indicating that the government was beginning to bring in legislation in this regard?

Mr. HENDERSON: These are comments by the Deputy Post Master General.

Mr. TARDIF: The changes would be a matter of policy and the deputy certainly would not recommend changes in policy.

Mr. HENDERSON: Would you like to move on to the next item?

The VICE-CHAIRMAN: Number two, gentlemen.

Mr. HENDERSON: Departmental Operating Activities. I have a comment about that and I could just sum it up by saying, as I do at the bottom, that it remains my intention to keep the development of this objective under close surveillance and to continue to report thereon to the Committee. We have this one marked "slow progress being made".

An hon. MEMBER: After "Departmental Operating Activities", Mr. Chairman?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: Yes, that is correct.

Mr. HENDERSON: Number three, at the top of page three, Internal Finance Control. This is another matter that I continue to keep under review and to report further thereon to the House. You have an example of this type of thing here. We are making slow progress with this. You may recall that the Department of External Affairs—we will be coming to this—are appointing an internal auditor. This was the subject of a Committee recommendation, and they will have him on the job on May 1.

Mr. TARDIF: That is for producing the internal financial control?

Mr. HENDERSON: Yes, that is right.

Mr. TARDIF: Is the responsibility of internal financial control not the responsibility of the Treasury Board at this time?

Mr. HENDERSON: Well, they are seeking to encourage the departments to take more of that responsibility themselves than has been the case in the past. The Treasury Board continue to give close supervision and assistance.

The fourth one is Unemployment Assistance. This is soon to be implemented. I explained why and I point out to you that it is my intention to keep the House informed on this matter, which was the basis of your request to me. You will recall the witnesses we heard on that.

Number five, the Findings of the Royal—

Mr. TARDIF: I do not read as fast as you do. Before I get half way through the paragraph you are already in the next clause.

Mr. HENDERSON: Would you like to pause here and discuss it?

Mr. TARDIF: Shall we slow down just a bit? That is why I suggested, Mr. Chairman, that this had perhaps been given to us at a previous meeting and it was discussed generally at that time.

The VICE-CHAIRMAN: Well, this is just to give a quick estimate of what the report contains. We are not taking any position or any stand on any one item today.

Mr. HENDERSON: Do you wish me to continue, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

Mr. HENDERSON: Number five deals with the findings of the Royal Commission on Government Organization. I reported on this in my 1966 report, and when you examine my comments it is my hope that witnesses will be called. I believe at the last meeting it was proposed that the Steering Committee consider inviting Mr. Glasco to be present. This is something which will be coming up on your agenda. No advice has yet been received by the Chairman or from the Minister.

Number six, the Form and Content of the Estimates. There has been no action on this one yet. Again, I think this will be discussed when the Treasury Board witnesses are present. I have as yet no advice from the Minister or from the Department to give you. That is another case where a letter has not as yet been sent to the Chairman or to me.

Number seven. You will note my comment there. Parliament amended the Judges Act and I would suggest to you, from the action taken here, that it merits your considering this particular recommendation to have been implemented.

The VICE-CHAIRMAN: That is one for us.

Mr. HENDERSON: Number eight, Governor General's Special Warrants. I can tell you that I am not as yet aware of any action having been taken on this matter. Again, this will be discussed when the Treasury Board witnesses are present.

Mr. TARDIF: Excuse me, Mr. Chairman. When you say:

The Committee recommended that a study be made of Governor General's special warrants.

Is a study not being made of that now, and if a study is going to be made who is going to make it?

Mr. HENDERSON: I believe that when the Secretary of the Treasury Board appeared before the Committee he undertook to make such a study, but I have not been advised whether it is being—

Mr. TARDIF: Mr. Chairman, may I ask what kind of study is referred to?

The VICE-CHAIRMAN: We would have to go back to our Report, in which we outlined exactly what our intentions were, and I do not—

Mr. HENDERSON: I commented in my 1964 and my 1965 reports on the manner in which the Governor General's special warrant procedures were being handled. I gave examples of items. You had Dr. Davidson, the Secretary of the Treasury Board, present as a witness and you concluded—with which Dr. Davidson concurred—that a study should be made of this total situation. We are awaiting advice from Dr. Davidson on the progress that he has been able to make on this, and I have no doubt that when he appears before you he will have something to say on it.

Mr. TARDIF: There is a study being made of the Governor General's warrants now, is there not?

Mr. HENDERSON: I do not know that, Mr. Tardif.

Mr. TARDIF: Did it just pass without anybody—

Mr. HENDERSON: It is a big subject and it would involve consideration of section 28 of the Financial Administration Act. The status of this study and the consideration being brought to it is the responsibility of the Treasury Board, and I have every expectation that they will be getting around to it.

Mr. TARDIF: Thank you.

Mr. HENDERSON: In the meantime it stands as an outstanding Committee recommendation.

The VICE-CHAIRMAN: Mr. Tardif, on page 19 of your 1966 Report you will see a paragraph that comments on this. It is under item 48, beginning on page 17, Governor General's special warrants. On page 19 there is a paragraph which reads:

Following the use of Governor General's special warrants in 1962-63, the Public Accounts Committee recommended in its Fourth Report 1964 that a study be made of the procedures surrounding their use (see Appendix 1, item 8). In commenting on this recommendation the Minister of Finance advised the Chairman of the Public Accounts Committee on March 4, 1965 as follows:

And there is a short paragraph there:

. . .the Secretary of the Treasury Board undertook to consider the desirability of enlarging on the special Governor General's warrant provisions in the Financial Administration Act (in particular section 28) in order to clarify its application to situations arising when Parliament is dissolved without having appropriated the necessary expenses of the Public Service. Suggestions have been discussed for changes in this section of the Financial Administration Act, and these are now being studied. Should the Government decide that an amendment to the Act is desirable, it will present its proposals to Parliament in the usual way.

This dates back, as you can see, to the financial year 1962-1963, and the recommendation of this Committee of March 4, 1965. Some of us here today were not here at that time; you were perhaps a member of the Committee at that time, Mr. Tardif.

Mr. TARDIF: I have a limited memory faculty.

The VICE-CHAIRMAN: Number 9.

Mr. HENDERSON: Number 9; there is no action here yet, although, as I say in my comment at the top of page 6, am continuing to audit the annual financial statements of this fund. It is my understanding that as and when the act is next brought before Parliament an amendment along these lines will be introduced.

Number 10: This has to do with my office. This has been a long-standing recommendation. As you know, in this particular case the Minister of Finance expressed himself on January 26, 1967, to the Chairman of the Committee. Here we quote the pertinent paragraph for your information. I go on to point out that although section 6 of the Public Service Employment Act does indeed provide for the delegation of authority, to which the Minister refers:

... I have not requested that authority to select and appoint staff in my office be delegated to me because of the Committee's request...

We are coming to this point. It was discussed at the last meeting.

...that I co-operate with my legal advisers in drafting a separate Act of Parliament governing my office.

I felt that you might wish to consider this when you are dealing with that act, or that you might want to consider it separately. However, when we return to the discussion of the new act, this point, as you recall, is embodied in it. I thought that in the interest of orderly discussion this perhaps was the way that you would like to do it.

The VICE-CHAIRMAN: Mr. Tardif?

Mr. TARDIF: Mr. Chairman, I would not want to say that I disagree with everything that has been recommended, but this can create a precedent that would make the head of every department want to do his own hiring, and then you would go back to patronage again. I do not say that this will happen in this case, but if you depart from the established practice of selecting your employees through the Civil Service you are building another employment office, actually, that is separated from the Civil Service. Every department will probably want to do the same thing, and then you are back into patronage. I do not accuse anyone of patronage, but the danger will exist.

The VICE-CHAIRMAN: I think we agreed at our last meeting, Mr. Tardif, that this recommendation of a proposed act should be brought back to the Committee at a later date and studied by the Committee as a whole, not by the steering committee, or anything of that sort. Therefore, I do not believe that we should have to go into this at this time.

Mr. HENDERSON: Number 11: The CBC Report of the Royal Commission on Government Organization: You will see there the recommendation made by the Committee. No action has been taken, nor has any advice as yet been received from the Minister by the Chairman, or by me.

Number 12, on page 7: Slow progress is being made here, and I refer, in my comment, to what has, in fact, taken place.

Mr. TARDIF: Mr. Chairman, will this probably be effected, or may some changes be expected if the bill that is before the House now passes Parliament?

Mr. HENDERSON: I do not believe that legislation will actually affect this, but rather the regulations that flow from it, which of course have not yet been framed, and we are hoping that when the regulations issue they will indeed take care of this and some of the other matters on which the Committee has expressed recommendations.

Mr. TARDIF: This may be one reason for this not having implemented as yet.

Mr. HENDERSON: Number 13: Unauthorized use of Crown-owned vehicles. Here you have a case where the executive has indicated disagreement. I quote a letter received from the Secretary of the Treasury Board on December 7, 1966. You will notice that

The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

You had been considering some difficult cases in this area, and that was your conclusion.

Now, the Secretary of the Treasury Board takes issue with that recommendation. I would suggest that that is something you might wish to discuss with him when he appears before the Committee.

Mr. TARDIF: Is dismissal one of the penalties for taking a vehicle that does not belong to you, or that you are not authorized to use?

Mr. HENDERSON: He gives his reasoning. As you have said yourself you have not yet had a chance to read this, but you will see his reasoning there. I, myself, in view of what he has had to say, am making a review of all of the losses of the type he refers to—I make the suggestion that you might like to let the recommendations stand until I complete that review so that I can bring before you the actual types of cases, and then you will be better informed.

Mr. TARDIF: There must be some action taken by some employees where the only proper penalty would be dismissal. All cases must be a little different, one from the other, and it may be a good idea that we get a few of these cases in detail so that we can judge better.

The VICE-CHAIRMAN: Yes. When we study No. 13 in depth perhaps we can study a few cases that might be representative of this difficulty.

Number 14?

Mr. HENDERSON: Financial assistance to town of Oromocto: The executive has indicated its disagreement with your recommendation here. As you may remember the Deputy Minister of Finance appeared before the Committee on June 9, 1966, and I told you—and Mr. Bryce confirmed—that he did not believe that they should be written off; but he did agree that the transactions might be reflected more realistically in the financial statements of Canada, and he stated that in future they would be included in the schedule, "Statement of Assets and Liabilities", under a special subheading entitled "Recovery Likely to Require Parliamentary Appropriations".

Mr. MUIR (*Lisgar*): Is not this the sort of thing that could go on forever?

Mr. HENDERSON: I give you my opinion, Mr. Muir, that this does not solve the problem. I think you will have to return—

Mr. TARDIF: If this does not solve the problem what would?

Mr. HENDERSON: The carrying out of the Committee's recommendation. The Committee has made its recommendation here.

Mr. TARDIF: That we write it off?

Mr. HENDERSON: Yes, sir.

The VICE-CHAIRMAN: And call it a grant instead of a loan.

Mr. HENDERSON: Now, this is something that you may want to return to and discuss—

Mr. TARDIF: I think we should.

Mr. HENDERSON: —when you have the Deputy Minister before you, because you have some other cases in this category, too.

Mr. TARDIF: I agree; I remember that we said that we wanted to get the story that goes with this, and I think that we should before he makes a visit. It is quite a large amount, if I remember.

The VICE-CHAIRMAN: It is apparently a large amount that the town of Oromocto will never have the chance of repaying. We are only fooling ourselves in thinking of it as a loan.

Mr. TARDIF: Well, that is near a military base, if I remember correctly. Is that not so?

Mr. BIGG: Yes.

Mr. TARDIF: Has the military base been closed, Mr. Chairman?

The VICE-CHAIRMAN: Not to my knowledge; it certainly has not been closed.

Mr. HENDERSON: Oh, I think not; Oromocto is—

The VICE-CHAIRMAN: No, it is Gagetown, I believe.

Mr. BIGG: Gagetown, New Brunswick.

The VICE-CHAIRMAN: There is a similar case that was brought up just recently in the township of Widdifield near North Bay where they are having difficulty providing services to military personnel and their families. Perhaps this is a similar case.

Mr. MUIR (*Lisgar*): In the study of this thing it was apparently brought out that there was no possibility of its ever being repaid.

The VICE-CHAIRMAN: None whatsoever, and apparently this town could never afford to pay even the interest on the loan.

Mr. BIGG: To all intents and purposes they are going to be camped off base, for protective purposes and so on.

Mr. TARDIF: When we bring this back again it might be a good idea to have some details, if we can get them.

Mr. HENDERSON: Number 15: Assistance to provinces by the Armed Forces in civil emergencies. This had to do with some outstanding accounts which the Department of National Defence had not been successful in collecting.

I quote here a letter written to me by the Deputy Minister of Finance, which—if my recollection serves me aright—he actually quoted to you when this point came up in his presence last June. He gives the policy they follow and as I point out to you, I have not heard of any further developments.

Mr. TARDIF: That is on clause 15, Mr. Chairman?

The VICE-CHAIRMAN: Yes, number 15.

Mr. TARDIF: No effort is ever made to try to collect the charges—which I hope are reasonable—for the services that were rendered?

Mr. HENDERSON: I have no further information as of the date of this follow-up report. That is my point, Mr. Tardif.

Mr. TARDIF: Does that apply to many departments, or just to one, Mr. Chairman? This is an individual case that is referred to in this item, is it?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: I think it refers specifically to the Red River flood, which you will remember, when there were quite a large number—

Mr. TARDIF: In Winnipeg.

The VICE-CHAIRMAN: Yes.

Mr. BIGG: I do not think it is quite fair to call it a local disaster; this was almost a national disaster. When the whole river valley floods, you would not expect Winnipeg to pay the whole “shot”.

Mr. HENDERSON: The Deputy Minister cites the policy surrounding their handling of matters connected with the Red River flood. As the note in my report stated, and as your recommendation quotes.

. . . outstanding accounts. . . relating to assistance provided by the Armed Forces in civil emergencies in prior years.

That would probably be assistance to some of the provincial governments.

Mr. LONG: Forest fires.

Mr. HENDERSON: Mr. Long has just reminded me that it is forest firefighting.

The VICE-CHAIRMAN: Would you know, Mr. Henderson, whether this charge that the federal government is making to the provinces would include wages to these personnel who are already members of the armed forces, or is it just the expenses involved in bringing them out there and feeding and housing them?

Mr. HENDERSON: Mr. Long is just looking at our papers on this, Mr. Chairman, if I might just have a minute.

Mr. TARDIF: Well, if it is armed forces, Mr. Chairman, I would imagine that their salaries would be paid anyhow—

The VICE-CHAIRMAN: Well, that is what I am getting at.

Mr. TARDIF:—whether they are on flood control or were doing nothing.

The VICE-CHAIRMAN: Yes; well, that is—

Mr. TARDIF: But is it something else?

The VICE-CHAIRMAN: I was just wondering if the wages were also charged, because they are already an expense to the Government anyway.

Mr. MORISON: Mr. Chairman, could you tell my why it is so difficult to collect from the provinces?

Mr. HENDERSON: Mr. Long might be able to give you that.

The VICE-CHAIRMAN: If I had the answer to that I would not be Vice-Chairman of this Committee.

Mr. BIGG: The federal government collects the taxes.

Mr. LONG: Would it help, Mr. Chairman, if I were to read the original note on that from our 1963 report?

The VICE-CHAIRMAN: That would be fine. We will be going into this more deeply later, but if at the present time you have some comments which would clarify it they would be appreciated.

Mr. LONG: This is quite short.

Section 35 of the National Defence Act provides for the employment of the Armed Forces when the Governor in Council has declared that a national disaster exists. Although the Act makes no provision for the use of the Forces in emergencies not thus declared national disasters, the Department of National Defence, on a number of occasions over the years, has rendered assistance to provincial authorities in circumstances not rated as national disasters. It is the general policy in such cases to grant assistance upon written request by the Premier of a province, or by any member of his cabinet authorized by him for this purpose, with the province entering into a formal agreement to reimburse the Government of Canada for all expenses to be incurred (except Regular Force pay and allowances) and to release the Crown from liability for any loss or damage that might arise out of the rendering of assistance.

On four occasions in the summer of 1961 assistance was given to one province in fighting forest fires. In three of these instances provincial ministers signed agreements but in the fourth, contrary to the established practice, an agreement was not executed. In the course of these fire-fighting operations the Department incurred recoverable expenses in the sum of \$410,000, including a charge of \$59,000 for the use of a helicopter which was, in fact, lost in the course of one of the operations. The claim was not submitted to the province by the Department until January 1963 and recovery has not yet been effected from the province.

In the course of our inquiry into this situation it was also noted that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, had not yet been paid.

Mr. TARDIF: The action that you are referring to took place in 1961 and they did not bill it until 1963?

Mr. LONG: That is right.

Mr. TARDIF: I wish my dentist would do that.

Who is responsible, Mr. Chairman, for billing these things. Would it be the army?

The VICE-CHAIRMAN: Would it be each department, or—?

Mr. LONG: The Department of National Defence, I would say.

The VICE-CHAIRMAN: Did they recover any money from the provinces that had signed a legal agreement to repay the Federal Government?

Mr. LONG: I can only guess that there would be cases in which they recovered; but in three of the cases referred to here in this one province there were agreements but the cost was not recovered.

The VICE-CHAIRMAN: Not one cent was recovered?

Mr. LONG: No.

Mr. SOUTHAM: Out of the \$400,000?

The VICE-CHAIRMAN: Including the loss of a helicopter? Is this the one involving a helicopter?

Mr. LONG: Yes.

The VICE-CHAIRMAN: In the fourth instance they went to the aid of a province without an agreement; is that correct?

Mr. LONG: Yes; contrary to the usual practice.

Mr. TARDIF: This was forest firefighting, was it?

Mr. LONG: Fighting forest fires.

Mr. TARDIF: In all four cases.

Mr. LONG: There were four cases in one province.

Mr. TARDIF: What province was that, so that we can give them the proper credit rating?

Mr. SOUTHAM: Mr. Chairman, any province that would renege on its payment for services like that could jeopardize its chance in the future of ever getting any assistance from the Government.

The VICE-CHAIRMAN: I would imagine so, too.

Mr. SOUTHAM: They could put themselves in a very serious position.

Mr. TARDIF: What province was it?

Mr. HENDERSON: The province of Newfoundland.

Mr. TARDIF: They are going to lose their triple A rating.

Mr. MUIR (*Lisgar*): Lose what?

Mr. TARDIF: Their triple A rating.

Mr. BIGG: Perhaps I might make a brief comment here. When you have widespread forest fires it is a national emergency and no province is equipped to fight the fires and an item like the lost helicopter. I know from personal experience in one of the departments that it is not the policy of the Government to insure their vehicles. They think it is cheaper to absorb the losses themselves. It is like lending a friend your car. If you do not have your insurance paid, to a certain extent it is your own neglect.

The VICE-CHAIRMAN: They probably provide a fund, though, Mr. Bigg, instead of paying insurance premiums.

Mr. BIGG: If they do, then they should not hold the province responsible for—

The VICE-CHAIRMAN: This sounds as though it is going to be a very interesting item. I think we should go on to the next one.

Mr. TARDIF: Mr. Chairman, if there was no help from the Department of National Defence what would the losses be? The charge is probably very reasonable.

The VICE-CHAIRMAN: Millions and millions of dollars in natural resources; there is no doubt about it.

Mr. BIGG: The trouble is that if the province is "broke" they cannot afford to fight the fires, and we burn up our forests, and the whole nation suffers.

The VICE-CHAIRMAN: I think we had better go on and go into this in more detail later.

Mr. MUIR (*Lisgar*): Before we do, Mr. Chairman, in what department is this carried as an—

The VICE-CHAIRMAN: As an asset?

Mr. MUIR (*Lisgar*): —outstanding account?

Mr. TARDIF: As a liability.

Mr. LONG: The Department of National Defence, Mr. Muir.

The VICE-CHAIRMAN: Under accounts receivable?

Mr. LONG: This would not be recorded as an asset; it would be carried as a memorandum account receivable by the Department.

Mr. TARDIF: It would probably be listed under uncollectible accounts.

Mr. SOUTHAM: Another approach could be to decide whether we should declare an occasion such as this a national emergency or a provincial emergency. If it is a national emergency then there would be no charge and we would not have this liability.

The VICE-CHAIRMAN: I believe you made mention of the fact that there are criteria set out on what is a national emergency and what is not. Is that correct?

Mr. LONG: This is mentioned in the note.

The VICE-CHAIRMAN: Yes.

Mr. LONG: The reply of the Deputy Minister, of course, when he refers to the Red River flood, indicates that this is a problem.

Mr. TARDIF: Mr. Chairman, regardless what decision is reached I think the agreement that is supposed to have been signed should be signed anyhow and then the decision on whether it is a national emergency or a provincial emergency could very well be made later. If it is a provincial emergency, even if we do not collect—

Mr. MUIR (*Lisgar*): If you are going to wait to sign an agreement the place could be burned down.

The VICE-CHAIRMAN: Yes, that is it.

Mr. TARDIF: Oh, it does not take long to sign an agreement.

Mr. MORISON: There is no agreement if it is a national emergency?

Mr. TARDIF: No; if it is a provincial emergency.

The VICE-CHAIRMAN: If it is classed as a national emergency, from my understanding, the Federal Government can send help? Is that correct?

Mr. LONG: Section 35 of the National Defence Act provides for the use of the armed forces in national emergencies when the Governor in Council has said that a national disaster exists. Now, I take it that this did not take place in this case. The provinces asked for help and signed an agreement that they would pay the out-of-pocket expenses.

Mr. TARDIF: They agree; but there must be a form of agreement, and all that they have to do is to get it signed. Certainly it is not time-consuming.

Mr. MUIR (*Lisgar*): Usually you can see whether or not it is a national disaster.

The VICE-CHAIRMAN: Does not the Governor in Council decide whether or not it is a national disaster?

Mr. LONG: The Governor in Council would decide that; and I would think it could be decided afterwards.

Mr. MUIR (*Lisgar*): Do you not think that the troops would be there before the Governor in Council made his decision?

The VICE-CHAIRMAN: Certainly.

Let us move on: we could spend a week on this.

Mr. HENDERSON: Number 16: Pensions Awards Effective at an Early Age. This is a subject which has to do with the Department of National Defence. You will recall that you questioned the Deputy Minister at length in your last meetings.

I advise you here that I understand that no conclusions have yet been reached but that I have brought this matter forward in my 1966 report. You will be dealing with it when you reach that paragraph.

Mr. TARDIF: Mr. Chairman, some action may be taken on this this year that could not have been taken last year.

Mr. MUIR (*Lisgar*): Is that the paragraph dealing with enlisting at the age of nine years?

The VICE-CHAIRMAN: Is this the one referring to the enlistments at nine years of age?

Mr. HENDERSON: That was a separate note, actually, in my 1965 report, as distinct from this one although it bears very closely on the same subject. You considered it with all of the other notes when you had the Deputy Minister before you, and this is your recommendation.

The same situation exists in regard to Item 17, Discretionary Awards of Pensions. There has been no action here yet, and again, like the previous one, there has been no further word received from the Minister by either the Chairman or myself.

Number 18, Errors in Public Service Superannuation Account Pension and Contribution Calculations. You will recall your discussion on this. This is the one item we categorized as "action taken but not producing results". As you will see

from my comment, a preliminary review of the results of our tests in 1966-67—that is the fiscal year just ended—has indicated a higher incidence of error than in the previous year in spite of the internal auditing procedures which the Comptroller of the Treasury described to the Committee last June and which he introduced into the superannuation branch with effect from July 1, 1966.

I have drawn this situation to the attention of the Comptroller of the Treasury in the hope that he can take some remedial action. This is a matter to which the Committee has attached considerable importance.

Mr. TARDIF: I recall that we discussed this last year, but I am wondering if it is the practice, or the policy, that if the Department makes an error they collect it from the pensioner who benefits by the error? Do they collect it back? Is it the policy to do so?

Mr. HENDERSON: Yes; they might have underpaid or overpaid. They have to go about remedying it.

Mr. TARDIF: In the case where they overpaid they collect it back?

Mr. HENDERSON: They make every effort to collect it back.

Mr. TARDIF: And do they charge interest? I know that there was the question of whether or not they were going to charge interest.

Mr. HENDERSON: I do not believe they charge interest.

Mr. LONG: I do not think that there is any interest, Mr. Tardif.

Mr. TARDIF: Well, what happens if the mistake is in our favour?

Mr. HENDERSON: It is very disturbing to the pensioner to be told that his pension calculations have been incorrectly made and that there has to be an adjustment.

Mr. BIGG: They do not pay interest on the errors against the pensioner either?

Mr. LONG: No.

Mr. TARDIF: Mr. Chairman, may I ask if there are a great number of these cases? Are there many errors in the calculations?

The VICE-CHAIRMAN: In other words, do they amount to millions of dollars, or is it thousands of dollars, or what?

Mr. HENDERSON: I think you might describe it as thousands of dollars. It is not millions. We only make a test audit, you know, but of the ones that we take we have been keeping track of is the number of errors that we have found. They do not amount to much in dollars individually.

Mr. TARDIF: They do an internal audit? They have an internal audit system?

Mr. HENDERSON: The Comptroller sought to strengthen that by the change that he introduced last July. We have found, however, that it has not produced the results that both he and ourselves hoped for. Therefore, I have invited him to re-examine the situation.

Mr. BIGG: Has there ever been any indication of perfidy in this—that people in the Department are making their own pensions up, or that sort of thing? Is it strictly typographical errors and “sloppiness”. Is there any indication of that?

Mr. HENDERSON: As we have discovered these in the course of our work we have given full particulars in every case to the head of the superannuation branch. He then verifies our calculation and confirms the result to us, and then they have to go about the business of contacting the recipient and adjusting it either up or down, as Mr. Tardif says.

Mr. TARDIF: If they are alive there should be no problem. If the mistake is found after the superannuate is dead there must be some problem but if he is still alive there should not be any problem.

Mr. HENDERSON: As I told the committee previously, I feel that this is a situation that should be remedied. It is largely a mechanical operation. It is not a very unusual one. Every employer who pays pensions has this sort of problem. It seems to me quite unrealistic that there should be such a high incidence of error in handling the Government ones.

Mr. MORISON: Is this because of human error, or is it because of the system?

Mr. HENDERSON: Both, I would say.

Mr. MORISON: Then it is hardly the system that they are using, is it, that allows these people to—

Mr. HENDERSON: Failure to check the calculations before the pension is paid.

Mr. BIGG: Does this arise in the working out of the six-year average?

Mr. HENDERSON: The formula has to be followed pursuant to the Public Service Superannuation Act. The pay record of the employee has to be checked and then correctly related to the pension to which he is entitled.

The VICE-CHAIRMAN: Perhaps, Mr. Henderson, when we get into this in detail you can prepare a couple of specific cases so that we will have a better idea of just how these mistakes are made.

Mr. HENDERSON: I will be glad to, Mr. Chairman, when you consider this. You will have the same paragraph in my 1966 report.

The VICE-CHAIRMAN: All right.

Mr. HENDERSON: Number 19, Interest Charges on Loan to the National Capital Commission. You will recall this matter. I discuss it again in my 1966 report.

The discussions that are referred to here have not yet been initiated by the Department of Finance. By his evidence before the Committee last June, we know that the Deputy Minister has indicated his disagreement, although there has been no letter from the Minister of Finance to the Chairman or to me since his appearance last summer. There the matter still stands.

Mr. MUIR (*Lisgar*): What is the position taken by the Minister of Finance in this?

Mr. HENDERSON: It is all outlined in the testimony, Mr. Muir. In all fairness to the position Mr. Bryce took, I think I would want to refresh my mind on that testimony before I comment further about it to you. We will be dealing with this in the 1966 report, and I suggest that perhaps he might even be before you as a witness at that time.

Mr. BIGG: Is it general practice throughout the Government that departments charge interest to each other in order to have a policy of accounting?

Mr. HENDERSON: This is a practice similar to the one you have just referred to when we dealt with the Town of Oromocto, where you were making loans which should be written off as expenses or grants. The advances that the Government is making to the C.B.C. and to Expo '67 are all being treated as though they are loans and are all being carried as assets.

Mr. TARDIF: Mr. Chairman, I wonder if we could continue this at the next meeting? I have an appointment at 11.30. I do not want you to stop studying it because I have to leave.

The VICE-CHAIRMAN: Other members have also indicated to me that they would like to leave at approximately 11.30. Perhaps we should continue this on Tuesday and Thursday of next week? I do not think we have any schedule up for next week yet? I beg your pardon. On Thursday there is the visit to Expo. We will not be meeting next Thursday.

Mr. TARDIF: Parliament does not sit next Thursday.

The VICE-CHAIRMAN: That is right.

An hon. MEMBER: We can do it up Tuesday.

The VICE-CHAIRMAN: The preliminary study of it, yes.
Do we have a motion to adjourn?

Mr. TARDIF: I so move.

The VICE-CHAIRMAN: All in favour?

Some hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: The meeting is adjourned.

APPENDIX "27"

DEPUTY MINISTER OF NATIONAL DEFENCE

Ottawa 4, Ontario

9 March, 1967

Mr. A. D. Hales, M.P.

Chairman

Standing Committee on Public Accounts

House of Commons

Proposed Removal Allowance

1. Your Tenth Report, which was presented to the House of Commons 7 February, 1967, contained the following reference to the Department of National Defence:

"8. Proposed removal allowance. The Committee heard the suggestion from one of its members that it would be mutually advantageous to the Crown and to servicemen concerned were members of the armed forces who are being transferred given the option of having their household furniture moved at public expense or receiving a cash allowance equivalent to 90% of the estimated costs of moving the furniture. The Committee recommends that the Department of National Defence give consideration to recommending the establishment of such a cash allowance and that it advise the Chairman of the Committee and the Auditor General of its decision".

2. This suggestion has been examined and there are a number of disadvantages which would make the adoption of such a proposal unattractive to the department.

3. The main disadvantage is that of estimating the cost of moving furniture and effects from one place to another. Estimates of cost vary, often considerably, from actual cost, because of the virtual impossibility of accurately estimating until the van is loaded and weighed. By giving an option for an allowance in lieu of moving at public expense, verification of submitted estimates to actual weights and costs would not be possible.

4. There also exists the possibility of a charge for estimating when no actual move results.

5. Present administrative procedures within the Department would have to be retained in order to take care of personnel moved at Government expense.

6. The Committee should be aware that the department is always endeavouring to obtain better rates or otherwise lower costs and any benefits thus realized would not accrue to an individual who arranged his own move.

7. I am sure that you will agree that these disadvantages are such that it would be unwise to consider the establishment of a cash allowance in lieu of moving costs.

E. B. Armstrong

Deputy Minister

APPENDIX "28"

DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS
OTTAWA, CANADA

March 14, 1967

Mr. A. D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Hales:

Your letter of March 8th, addressed to the Minister of Transport, provided a copy of the Fourteenth Report of the Standing Committee. We are grateful for the opportunity to review this report.

We are, however, concerned over certain of the content of Item 12 which, insofar as this Department is concerned, appears to be either misleading or inaccurate.

Item 12 lists a series of points from various reports of the Standing Committee under the general heading Recommendations and Observations not yet implemented or dealt with by Executive action; and, in this connection, on page 10 refers to the Eighth Report of the Committee, presented to the House on November 3, 1966, and to some six items thereunder. A letter dealing with some of these items and certain other items was forwarded from this Department on January 13th; and this letter indicated that on two of the items relating to this Department action had been or was being taken by the Department to carry out the Committee's recommendations; and on two others reported that while the action of the Department might not be exactly in accord with Committee recommendations, the Department was aware of the problem in question and was taking steps to deal with it.

In the circumstances, I felt you would wish to have attention drawn to this matter.

Yours sincerely,

J. R. Baldwin,
Deputy Minister.

APPENDIX "29"

Ottawa 4, March 21, 1967

Alfred D. Hales, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

Dear Mr. Hales,

Under date of March 2, I provided you with a summary of the provisions of the contract regulations concerning departmental authority with respect to the entry into contracts.

I now find that under date of February 6, 1967, the Assistant Secretary of the Treasury Board advised the Deputy Minister of Public Works that, pursuant to Section 22 of the Government Contracts Regulations, the Board had approved increased authority to the Minister of Public Works to enter into certain contracts. Normally a copy of such a letter would be provided to us by the Treasury Board staff but no copy of this particular letter reached us in this manner and we were therefore not aware of this increased authority until now.

The increased authority as set out in the Treasury Board's letter of February 6 is as follows:

(1) For entry into a construction contract—a limit of one million dollars where not less than two tenders have been obtained and the lowest is accepted; a limit of fifteen thousand dollars where less than two tenders have been received or the low tender is not accepted.

(2) For increasing the amount of a construction contract—a limit of one hundred thousand dollars where not less than two tenders were received, and the lowest tender accepted, before the contract was entered into without Treasury Board approval; a limit of two hundred and fifty thousand dollars or by not more than twenty per cent, whichever results in the lesser amount, where the contract was entered into with the approval of the Treasury Board; to fifteen thousand dollars where less than two tenders were received or the low tender was not accepted; a limit of two hundred and fifty thousand dollars or by not more than twenty per cent, whichever results in the lesser amount, where the amount payable under a construction contract has been increased with the approval of the Treasury Board.

(3) For entry into a service contract—a limit of fifty thousand dollars for

- (a) engineering, architectural and other services required in respect of the planning, preparation for or supervision of the construction or repair of a work,
- (b) the hire of equipment, with or without the operator thereof,
- (c) transportation services other than those described in para (d) of section 15 (1) of the Government Contracts Regulations,

- (d) maintenance services (including cleaning, laundry, dry cleaning and tower services) and road clearing or snow, garbage and waste removal or disposal services,
- (e) maintenance and inspection of boilers, fire alarm and sprinkler systems and other similar classes of equipment,
- (f) the maintenance, repair, overhaul and refitting of vehicles, aircraft and other equipment,
- (g) air surveys and mapping services,
- (h) the relocation of power lines, telephone lines, pipe lines and similar installations that are not owned by Her Majesty,
- (i) the processing of materials owned by Her Majesty,
- (j) catering services;

a limit of two hundred thousand dollars for (a) above where the specific work project has been approved in writing by the Treasury Board; a limit of two hundred thousand dollars for (b), (c), (d), (e), (f), (g), (i) and (j) above, where not less than two tenders have been obtained and the lowest accepted.

(4) For increasing the amount of a service contract—a limit of not more than twenty per cent applicable to those services described herein where not less than two tenders have been obtained and the lowest accepted. All other service contracts are limited to a ten per cent increase as stated in the Government Contracts Regulations.

(5) For entry into a lease—a limit of fifty thousand dollars annual rate where the lease is required in connection with the administration of the Department of Public Works and the term does not exceed five years; a limit of fifty thousand dollars total if the annual rate exceeds fifty thousand dollars where the lease is required in connection with the administration of the Department of Public Works.

(6) For the renewal of a lease or entry into a new lease—a limit of fifty thousand dollars annual rate.

The increased authority stated herein was granted by the Board providing the established procedures for programme clearance of the work or other matters covered by the contract are complied with and providing that in no case will the department award a contract for an amount which would exceed by more than twenty percent the estimated cost of the work as approved by the Treasury Board during the stages of programme clearance.

* * *

I am sorry that this happened and am taking the liberty of providing you with 25 copies of this letter in order that the members of the Public Accounts Committee may read it in conjunction with the information previously provided to them.

Yours sincerely,

G. R. Long,
Assistant Auditor General.

APPENDIX "30"

DEPUTY MINISTER OF MANPOWER AND IMMIGRATION

Ottawa 2, March 22, 1967.

Mr. Alfred D. Hales, M.P.,
Chairman of the Standing Committee
on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Hales:

In the absence of my Minister, I wish to advise you that in accordance with the suggestion of the Public Accounts Committee in the Thirteenth Report —1966-67, arrangements are being made by the Department of Manpower and Immigration to establish close liaison with the auditors of the provincial governments examining the winter works expenditures.

The Office of the Auditor General will be kept advised of developments and provided with information obtained from the provinces which may be of assistance in compiling a followup report to the Public Accounts Committee.

Yours sincerely,
Tom Kent.

APPENDIX "31"

MINISTER OF AGRICULTURE
MINISTRE DE L'AGRICULTURE

Ottawa, March 31, 1967.

Mr. Alfred D. Hales, M.P.,
House of Commons,
Ottawa.

Dear Mr. Hales:

In reply to your letter of March 8, 1967, regarding recommendations made by the Public Accounts Committee, I am pleased to advise you of the status of outstanding recommendations which affect this Department in particular.

The recommendations are those appearing in the Seventh Report 1966 under the heading Prairie Farm Emergency Fund. The report of the Auditor General (1966), Paragraph 51 also refers—

Item 1—Implemented

The Board of Review has appointed a secretary and commenced to record minutes starting with the meeting held December 8 and 9, 1966.

Items 2, 3, 4 and 5—Not Implemented

I agree that it is desirable to implement these recommendations, but it is essentially a matter of legislative priority to determine when the necessary amendments to the Act might be presented to Parliament.

Items 6 and 7—Not Implemented

As with all legislative items, the adoption of these recommendations and introduction of amendments to implement them are matters of Government policy. In my opinion, however, there is some doubt as to the practicability of requiring all farmers:

1. to complete a cultivated acreage report when a municipality makes an application for assistance, and
2. to set forth in their permit books a statement of grain on their farms.

The implications of these recommendations are being studied.

As requested in your March 8 letter, I shall be pleased to report on the Public Accounts Committee's recommendations directly to the Auditor General when there is no Committee or when the House is not in Session.

Yours sincerely,

J. J. Greene

APPENDIX "32"

MINISTER OF NATIONAL DEFENCE
MINISTRE DE LA DÉFENSE NATIONALE

Ottawa 4, April 6, 1967

Dear Mr. Hales:

I have noted your request of March 8, 1967 and, on behalf of the Associate Minister and myself, will be pleased to advise the Auditor General directly, in respect of your Committee's recommendations, during any period when there is no Committee or when the House is not in session.

Yours sincerely,
Paul T. Hellyer

Mr. Alfred D. Hales, M.P.,
Chairman of the Standing
Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

APPENDIX "33"

THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS
CANADA

Ottawa, April 12, 1967.

Dear Mr. Hales,

Thank you for your letter of March 8, 1967 requesting a report on action taken by the Department of External Affairs to implement the various recommendations previously made by the Standing Committee on Public Accounts.

I think you will agree that there is only one outstanding item insofar as this Department is concerned and that is the recommendation of the Committee to establish an effective system of internal financial control. The Auditor General recommended that the Department establish a small internal audit staff to carry out periodic verification work at Posts abroad which the Committee agreed was essential to maintain an effective system of internal financial control.

The Department, of course, is in complete agreement with the Auditor General as to the importance of an effective internal financial control system. However, this recommendation covers a very broad area particularly in a department with financial operations so widespread. The Department currently is studying carefully the policies adopted by the Government for changes in financial administration which were based on the recommendations of the Glassco Commission. The introduction of concepts of program budgeting and responsibility accounting are complex and require careful and detailed study. This study is now going forward.

As to the establishment of an internal audit unit, the Department sought and received Treasury Board approval for the positions which would form part of the Inspection Service and be filled by qualified auditors. Before recruiting could be undertaken to fill these positions, it was necessary to have them classified by the Bureau of Classification Revision which was completed in June, 1966. As the Auditor General mentioned in his last report, the recruitment of properly qualified personnel to undertake these duties is a difficult task. Over eight months of careful search, including advertisements in newspapers, finally resulted in the selection of a qualified officer to fill the position of Senior Auditor who will assume his new duties on May 1, 1967. Among the Senior Auditor's early tasks will be to assist in the process of recruiting a junior auditor to work under his supervision within the Inspection Service of the Department, to examine the feasibility of enlisting the cooperation of other auditors for temporary duty assignments and to design and develop a complete audit program for the Department.

Yours sincerely,
Paul Martin

Mr. Alfred D. Hales, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

APPENDIX "34"

MINISTER OF
NORTHERN AFFAIRS AND NATIONAL RESOURCES
MINISTRE DU NORD CANADIEN ET DES RESSOURCES NATIONALES

Ottawa 4, 14 April 1967.

Mr. Alfred D. Hales, M.P.,
Chairman of the Standing Committee
on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Hales,

I wish to give reply to your letter of March 8, 1967 respecting the communication of information to your office and that of the Auditor General on matters which pertain to your Committee as recorded within its 14th Report and have had my officials prepare preliminary reply as follows:

Internal Audit

Pursuant to the interest expressed by your Committee in the Auditor General's comments respecting the importance of adequate financial control within Departments and more particularly, the need for more effective use of staffs engaged in auditing work, my Department has already taken certain initiative in this regard. Within the past few months, a contract has been developed between my Department and the Comptroller of the Treasury whereby the services of a qualified Auditor have been made available to my Department on a full-time basis. This decision was motivated in large measure by our own recognition of need, as well as, comments of the Auditor General as contained within his Report. This appointment is designed to allow for the development of a much more comprehensive and systematic internal financial audit program within this Department. The institution of this internal audit role, which, in consort with the distinct but related management audit function, which has existed for some time, should permit us to go a long way toward fulfilling our own requirements as well as, the interest expressed by your Committee members.

*Inadequate Control of Stores—
Northern Locations*

As recorded in the Proceedings of your Committee's 8th Report (November 3, 1966) my Deputy Minister provided your Committee with certain explanation surrounding the observations of the Auditor General's 1965 Report on the above subject. The Auditor in his most recent Report (1966) while denoting the considerable improvement that had been made during the course of the year in respect of our northern stores operations, also observed upon the opportunity for progress that still remained.

We are in general accord with the most recent observations of the Auditor in the above regard. However, in a preliminary way, I should like to acquaint you with the following information which will be expanded upon when the opportunity presents itself in the forum of your Committee.

1. *Recruitment of Personnel*

We have earlier stated, it is extremely difficult to recruit qualified stores personnel to serve at Northern locations. We have, however, achieved considerable progress over the past year, and we are hopeful that remaining vacancies can be filled in the months ahead.

2. *Catalogues*

In November 1966, catalogues covering a range of approximately 5,000 line items were distributed to our supply centres and we would anticipate this distribution will result in a much more effective stores control and requisitioning operation.

3. *Stores Accounting Procedures*

Improved procedures are being developed and should be ready for issuance during the current fiscal year. Meanwhile, steps have been taken to tighten up existing practices.

4. *Frobisher Bay Stores*

This has been our most challenging supply point, particularly from the standpoint of the management of an effective stores operation. Within the past several months we have identified the value of our complete inventory (\$440,000) and Treasury Board has recently approved a Submission recommending an increase of \$240,000 in the Working Capital Advance to accommodate stores taken over from other agencies of government. We would anticipate that in the future, we would be in a position to gradually reduce this Advance to a level in the vicinity of \$200,000.

This brief report is designed to acquaint you with efforts being made and progress that is being achieved in the matter of control over stores in our Northern centres.

Yours sincerely,
Arthur Laing

17
HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 35

TUESDAY, APRIL 25, 1967

Public Accounts, Volumes I, II and III (1966)

Report of the Auditor General to the House of Commons (1966)

INCLUDING

1. AN INDEX OF DEPARTMENTS CONCERNED
2. LIST OF APPENDICES
3. LIST OF REPORTS
4. LIST OF EXHIBITS
5. LIST OF WITNESSES



WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. G. R. Long,
Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,
Mr. Ballard,
Mr. Bigg,
Mr. Cameron
 (*High Park*),
Mr. Dionne,
Mr. Flemming,
Mr. Forbes,

Mr. Gendron,
Mr. Leblanc (*Laurier*),
Mr. McLean (*Charlotte*),
Mr. Morison,
Mr. Muir (*Lisgar*),
Mr. Noble,
Mr. Racine,
Mr. Schreyer,

Mr. Southam,
Mr. Stafford,
Mr. Tardif,
Mr. Thomas (*Maison-
 neuve-Rosemont*),
Mr. Tremblay,
Mr. Tucker,
Mr. Winch—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

REPORT TO THE HOUSE

MONDAY, May 8, 1967.

The Standing Committee on Public Accounts has the honour to present its

FIFTEENTH REPORT

A copy of the Minutes of Proceedings and Evidence pertaining to the Public Accounts, Volumes I, II, and III for the fiscal year ended March 31, 1966 and the Report of the Auditor General thereon (*Issues Nos. 33, 34 and 35*) is tabled.

Respectfully submitted,

ALFRED D. HALES,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1967.
(47)

The Standing Committee on Public Accounts met this day at 10.10 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs, Ballard, Bigg, Cameron (*High Park*), Flemming, Forbes, Hales, Lefebvre, McLean (*Charlotte*), Schreyer, Southam, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker, Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Hayes and Laroche of the Auditor General's office.

The Chairman tabled correspondence from the Chairman of the Public Service Commission of Canada dated April 19, 1967 respecting proposed draft legislation "An Act respecting the Auditor General of Canada" (*Entered as EXHIBIT XVIII*).

It was *unanimously agreed*,—That copies of this letter be distributed to members of the Committee.

The Committee reviewed Paragraphs 20 to 64 of the Auditor General's Follow-Up Report 1966.

Respecting Paragraph 23—Surplus Assets Disposal,

It was *unanimously agreed*,—That Department of National Defence officials be invited to appear with Crown Assets Disposal Corporation officials May 2, 1967.

Following discussion—

It was *unanimously agreed*,—That the Chairman write again to the Minister of Labour requesting that he make available to the Committee the External Auditor's Reports on the Central Mortgage and Housing Corporation for the years ending 31 December 1963, and 31 December 1964.

On motion of Mr. Ballard, seconded by Mr. Lefebvre,

Resolved,—That the Auditor General's Follow-Up Report be attached to today's Minutes of Proceedings and Evidence (*See APPENDIX "35"*).

At 12.05 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, April 25, 1967.

The CHAIRMAN: Gentlemen, we now have a quorum.

We would like to finish the follow-up report this morning and I understand that you got as far as item 20 at the last meeting. Before we proceed, I would also like to say that next Tuesday—a week from today—we will have the Crown Assets Corporation witnesses before the Committee, so I hope we will have a good attendance for that meeting.

I would like to file a letter from Mr. Carson, Chairman of the Public Service Commission, the contents of which have to do with the proposed draft of the bill for the Auditor General of Canada. We will discuss its contents when we come to that matter later on, but now with your permission we will just file it and bring it up later.

Now, gentlemen, we will deal with number 20.

20. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced.

Comment by the Auditor General: On April 28, 1966 the Treasury Board, Management Improvement Branch, issued a policy directive on the subject of "Revenue and Accounts Receivable Control". I refer to this directive in paragraph 173 of my 1966 Report to the House, implementation of which should result in an overall improvement in the control of accounts receivable.

Mr. TARDIF: Mr. Chairman, will we get a copy of that letter before we study the bill of the Auditor General?

The CHAIRMAN: Yes, you will, Mr. Tardif.

Mr. TARDIF: A couple of days ahead?

The CHAIRMAN: Yes. As a matter of fact, we might get it out to you right away.

Mr. TARDIF: Thank you.

The CHAIRMAN: I think we should follow the procedure of my just giving a brief outline of the matter, after which the members may ask questions of Mr. Henderson. Number 20 has to do with accounts receivable. If you will remember, the Committee discussed this at some length and asked that the various departments institute an accounts receivable system. A directive has been sent out by Treasury Board to see that this is done. Are there any questions?

I know that Mr. Henderson has a list of the ones which are implemented or not implemented, and so on.

Mr. A. M. HENDERSON (*Auditor General*): We categorized number 20 as "slow progress being made", Mr. Chairman.

The CHAIRMAN: Number 21 is next.

21. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of \$100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded.

Comment by the Auditor General: The Department of Finance has not provided the explanations requested by the Committee. In the meantime, the Bank Act, 1966-67, c.87, received royal assent on March 23, 1967. Section 93 of the Act reads in part:

93. (2) The bank shall not make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(3) Nothing in subsection (2) shall be construed to prohibit any arrangement between the Government of Canada and the bank concern-

ing interest to be paid on any or all deposits of the Government of Canada with the bank.

Section 93(3) is evidently designed to permit continuation of the practice of compensating banks indirectly for services provided to the Crown.

This was discussed at the time the new Bank Act was put through, and no change was made in the new Bank Act. Therefore it is marked "not satisfactory" as far as the Committee is concerned. We recommended that that be put in, but during the discussion the majority decided that it be left as is.

Mr. BALLARD: Mr. Chairman, I wonder if the Auditor General has any idea of the excess amount of money that the government may be giving to the banks through the present method, as compared to what the Auditor General has referred to as an equitable remuneration to the banks? In other words, how much does the Auditor General believe that we are paying the banks in excess of what would normally be paid, or has an estimate been made of this?

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Ballard, I do not think that anyone, outside of perhaps the banks, would know what it is costing to provide banking service to the Government but Parliament decided at one time that the banks were to receive no compensation for this. Now, that provision has not as yet been removed from the bank act. There were some words added which I have a bit of difficulty in understanding, but which I believe are intended to say that the government officers may arrange with the banks to leave on deposit whatever amount they feel is necessary. This is almost in the nature of barter. The banks perform a service and we give them the use of a quite considerable government asset. Normally the government pays the expenses of government by voting money for the purpose, and wherever possible there is competitive bidding for the business. I do not know if that is possible in a case like this; whether or not one bank could undertake to provide the service to the government and look after whatever charges it has to pay to other banks. There were several questions asked of the Department of Finance by this Committee that have not been answered.

Mr. TARDIF: Could this not be done as it is in regular business, where there is a charge for services and interest is paid on the amount of money left in the bank? Is it not done that way now?

Mr. LONG: There is \$100 million on deposit without interest, and on anything on deposit over \$100 million interest is paid at a rate related to the Treasury bill rate.

The CHAIRMAN: Mr. McLean is next and then Mr. Winch.

Mr. McLEAN (*Charlotte*): In running an account with a bank, I know I have watched one of our accounts and there is always a balance in the books of the bank of \$80,000, but in our books it will run down to \$1,000 or \$2,000. Now, is this a guarantee that they keep so much in the bank, because if they are running a current account in the bank the government would naturally have millions there on deposit on account of cheques outstanding. Does it take into consideration the cheques outstanding?

The CHAIRMAN: Mr. McLean, is your question is this \$100 million the balance on the Government of Canada's books or is it the banks' books?

Mr. McLEAN (*Charlotte*): It could possibly be on the banks' books but not on the government's books.

Mr. LONG: Might I explain, Mr. McLean, that the government does not operate a chequing account as you would in your business. Government cheques, strictly speaking, are not cheques as you and I know them. Government cheques are orders on the Receiver General to pay the amount. The procedure is that the banks main offices clear daily to the local agency of the Bank of Canada. For example, a cheque cashed in Ottawa would be cleared right to the Bank of Canada agency and the bank reimbursed. Cheques are not drawn on bank accounts; the banks are only paid for the cheques as they submit them as a claim against the government.

Mr. McLEAN (*Charlotte*): Certainly, but I would merely take this as an indication of the fact that the government covered with the banks the cheques which they were issuing in arrangements like that.

Mr. LONG: There is not necessarily any relationship. The \$100 million has been arranged and it is divided among the banks by the banks themselves. They indicate how much each bank should have.

Mr. McLEAN (*Charlotte*): The banks must cash the cheques. If I take a cheque in for \$50,000 the bank gives me the money, not the Receiver General. I would think that the banks would have to be covered in some way.

Mr. LONG: The government does not operate chequing accounts like that, and the Bank Act did forbid any payment to banks for cashing government cheques.

The CHAIRMAN: Mr. Winch. Mr. Tardif, do you have a question?

Mr. TARDIF: Excuse me. If you leave the \$100 million there that you get no interest on, it is equivalent to or perhaps a lot more than paying the charges for cashing cheques?

Mr. LONG: It is possible. We have no way of determining what the banks' cost would be.

The CHAIRMAN: Mr. Winch, you are next.

Mr. WINCH: Mr. Chairman, this is the very point that I was going to raise. I have been interested in this matter for quite some time and shall I say, at least unofficially, I have been trying to get an explanation. The unofficial answer which I have received is that as all government cheques are cashed without exchange or charge to the government, that this \$100 million is an unofficial ex gratia payment for the non-charge of cashing government cheques. Could I ask Mr. Henderson or Mr. Long if this is a valid explanation?

Mr. LONG: I think there is probably some validity in the idea that the banks should receive something and not have to provide this service free of charge.

Mr. WINCH: Would your position then be that there should be a charge and there should be interest said on the \$100 million, not this complicated system whereby there is no charge and no interest?

Mr. LONG: First, Parliament should change the Act, I would think. If you want to compensate the banks the Act should be changed so that it does not say: "No bank may make a charge for negotiating cheques," because I think that

applies to the person issuing the cheque as well as to the person cashing the cheque.

Mr. WINCH: Have you any recommendations to make to this Committee?

Mr. LONG: Well, the Committee has recommended that—

Mr. WINCH: Yes, I know that.

Mr. LONG: We agree with the Committee's recommendations.

Mr. LEFEBVRE: Mr. Chairman, in the case where a company, public or private, issues a cheque with a heading which usually says: "negotiable without charge at any branch of any chartered bank in Canada," does anybody here have an idea of what the bank charges the company issuing the cheque, so that the person cashing it does not have to pay? He gets the net amount printed on the cheque but somebody is paying those charges.

Mr. HENDERSON: In my experience, Mr. Lefebvre, that is usually determined by the company issuing the cheque under the heading of its relationship with its banker. It may be that the company issuing the cheque undertakes to maintain its balance at such and such a level, and accordingly the bank extends the privilege whereby that legend can be placed on the cheque and it will not attract a collection charge. The usual collection charge the banks now make is 20 cents a cheque up to a figure of \$200, I think; then I believe it becomes 30 or 40 cents, I just forget.

Mr. LEFEBVRE: Would these companies leave money on deposit such as the governments do?

Mr. HENDERSON: That is under the heading of their own banking relationships.

Mr. TARDIF: It might be a good idea, Mr. Chairman, to ask Dr. McLean about that, because I noticed the other day, when I cashed one of his cheques, that it appears on his personal cheques, so he must know how it got there.

The CHAIRMAN: Well, gentlemen, I think we will move on.

Mr. McLEAN (*Charlotte*): May I pose a question here now?

The CHAIRMAN: Yes.

Mr. McLEAN (*Charlotte*): If the Government were to carry on checking accounts in the usual way, would they not have to keep more than \$100 million on deposit?

Mr. HENDERSON: We are not in a position to answer that, Mr. McLean.

Mr. McLEAN (*Charlotte*): I know that sometimes a lot of companies show \$800,000 outstanding on outstanding cheques.

An hon. MEMBER: They do their bookkeeping a little differently.

Mr. McLEAN (*Charlotte*): Right. But, I would think with the volume of business the Government does, if they did their business the same as an ordinary concern, that they would have to keep much more than \$100 million on deposit in order to cover all outstanding cheques.

Mr. FORBES: Mr. Chairman, could we not have Mr. Rasminsky here before the Committee to explain their banking system? Then we would know what we are talking about.

The CHAIRMAN: That would be a point. But so far as this is concerned, the Committee studied this matter; we made a recommendation; we sent it to the Minister of Finance; a member of our Committee sat on the Finance Committee when the new Bank Act was being discussed; it was before the House, and each and every one of us had an opportunity to speak on this section, and the new Act and section 93 has been passed. There is nothing we can do about it unless there is an amendment to the new Act which was just passed, and that is most unlikely.

Mr. BALLARD: Let us move on.

The CHAIRMAN: Number 22: The Canada Council:

22. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund.

Comment by the Auditor General: On October 21, 1966 the Secretary of State advised that:

I do intend to recommend to the Government that we introduce at an early date an amendment to the Canada Council Act designed to make it perfectly clear that the legislation supports legally the judgments which have been made by the Canada Council in the distribution of these funds.

No amendment has yet been introduced for this purpose.

You will recall that the great dispute here was whether they would accept the 1956 census as a basis for distribution, or the last census. We are advised by the Canada Council that they intend to introduce at an early date an amendment to the Act, in line with our recommendation.

Are there any questions?

Number 23: The Surplus Assets Disposal, and the physical inventory.

23. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily

available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials including supplies and equipment stores at supply depots and a repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Comment by the Auditor General: The Department is in the process of developing one supply system for the Canadian Forces, which it is planned to have in operation by 1972. Because of the size and nature of the program and the number of studies involved, it is expected that a fully operational system providing priced inventories of stores will not be completely installed for several years.

Now, I think we can move on because next week we will have the Crown Assets people here. This will come under the Crown Assets next week, Mr. Winch.

Mr. WINCH: I would like to say one word now, though.

The CHAIRMAN: All right, Mr. Winch.

Mr. WINCH: I regret that I have not been able to attend the last four meetings; that is because I have not yet found the secret of being in two places at once. But, I do want to take the first opportunity to register my objection to the fact that following the Auditor General's Report, some editorials in newspapers across Canada implied directly that this Committee had not interested itself in surplus assets disposal. I think it should be made clear now, in the Committee, that at every meeting of this Committee over the years surplus assets disposal has come up for study and comment, and a few years ago we called Crown Assets Disposal Corporation before us. In view of the fact that I have not yet seen any denial of these editorials, I want to take this opportunity of saying that in my view there can be no question that this Committee has paid attention to the matter of Crown assets disposal and did call—which the papers completely ignored—Crown Assets Disposal before it, I believe about three years ago.

The CHAIRMAN: Mr. Winch, I would like to add that the Committee appointed a subcommittee to go into that very fully, and you were a member of that subcommittee.

Mr. WINCH: That is right. I was most disturbed when I read that editorial statement, because it was completely untrue.

The CHAIRMAN: There is a follow up; I think Mr. Henderson should interject on this.

Mr. HENDERSON: I want to explain to the members that this particular point—Item 23—will not necessarily come up when you have the officials of Crown Assets Disposal Corporation before you. This concerns the inventories held by the Department of National Defence, and if you just glance at item 23, you will see that in the second paragraph:

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it.

No dollar values are placed on this inventory, and accordingly the Committee went on to recommend that steps be taken to price the inventory in order that we would know the amount of money invested in it. That is what led to the Committee recommendation, and I would direct you to my comment that:

a fully operational system providing priced inventories of stores will not be completely installed for several years.

Your witness in this case should be, I think, the Department of National Defence, or you might care to speak with the Secretary of the Treasury Board about it when he is before the Committee. Suffice to say that the Chairman and I have not received any word from the Minister on this particular point. Therefore, there has been no action on this recommendation yet.

The CHAIRMAN: The question is, why is it going to take several years to set up a system of inventory where the cost is placed alongside the quantity? It will be related to Crown Assets in one respect. We said to Crown Assets when we had them before us: "When you sell an article, how do you know how much to charge for it? Do you know what it cost?" And they said: "We do not know the cost of it because National Defence has no cost. They never tell us the cost of an article that they ask us to sell." So, when they come next week I hope they will have

this well in hand and will know the cost of an item that they have been asked to sell.

Mr. WINCH: Your special subcommittee on this matter made specific recommendations a few years ago, and we gave evidence of what we thought was completely stupid handling of assets. The report of the subcommittee was completely endorsed by the Committee and recommendations were made. That was three years ago, approximately. Now we are told they cannot operate until 1972 with an understanding of our recommendation. This means it has taken approximately six years to deal with a matter involving the taxpayers' money. I hope, sir, that there is going to be some real interrogation next week of Crown Assets; if not, I will have no hesitation in recommending the appointment of a subcommittee again with authority and power.

The CHAIRMAN: Mr. Henderson, have you been given any reason why it is going to take six years to implement what would appear to be a not too complicated system?

Mr. HENDERSON: My comment here is based on information received from the department, which explains that it is in the process of developing one supply system for the Canadian Forces which it hopes to have in operation by 1972. It cannot be done sooner because of the size and nature of the program and the number of studies involved. Mr. Chairman, they carry tremendous inventory. As a matter of fact, members of the Committee will recall receiving an explanation in respect of some of these problems from General Rothschild on the occasion of your visit to Air Materiel Command, Rockcliffe.

The CHAIRMAN: I think we need an explanation. I am from Missouri, and I want it proven why it takes six years, because when you purchase an article you know the cost the day you purchase it. They keep an inventory, they register it in an inventory the day they receive it, and it would appear to be a matter of putting the cost beside it. Why it takes six years to do that, I do not know.

Mr. TARDIF: Being from Missouri, I take it you have your Canadian citizenship papers?

The CHAIRMAN: Yes, I have. When we have the department officials before us we will refer to this again.

Mr. HENDERSON: Mr. Chairman, it might be that the Committee would want to have an official from the Department of National Defence present at one stage of the proceedings in order that he could speak on this problem. He would be able to update you further.

The CHAIRMAN: As a little aside, next week we have Crown Assets before us, and their biggest customer is the Department of National Defence. Should we have an official from National Defence at that meeting next week?

Mr. TARDIF: It might be a good idea, Mr. Chairman, to request that of the Minister, and also to ask that they send someone who is quite capable of answering the questions that we may ask.

The CHAIRMAN: What is the wish of the Committee?

Mr. SOUTHAM: I think that is a good suggestion.

The CHAIRMAN: Do you think that would be a good procedure, Mr. Henderson?

Mr. HENDERSON: I think that the department would welcome having somebody come and speak on this particular point because the officials of Crown Assets really cannot give you the answers which you seek on this one. The department keeps the inventory and its maintenance is their responsibility. They keep it only in quantities however. A representative from the department could perhaps elaborate on this in a manner which would throw considerable light on it.

The CHAIRMAN: All right.

Mr. WINCH: I think it is a very important matter and we should have an answer to it. I agree with the chairman. I cannot understand. There is a record of cost. When they declare something surplus, why do they not transfer the cost to Crown Assets. I think it is a valid question.

The CHAIRMAN: All right. We will have a member of the Department of National Defence as a witness as well next week.

The Hospital Construction Grants was withdrawn.

25. AWARD UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

Comment by the Auditor General: This matter has again been referred to in paragraph 140 of my 1966 Report to the House.

The committee of three persons appointed by the Treasury Board in September 1965 to survey the organization and work of the Canada Pension Commission and to prepare a report and recommendations thereon to the Minister of Veterans Affairs, has not yet submitted its report.

The CHAIRMAN: I am not too familiar with this. It is very complicated. There may be questions from the Committee for Mr. Henderson.

Mr. HENDERSON: Mr. Chairman, I deal with this in paragraph 140 of my 1966 Report and, if you care to stand it, you will have the full picture of this when we come to paragraph 140.

The CHAIRMAN: All right.

Mr. HENDERSON: I told you that there was a committee of three persons appointed in September 1965 to survey the organizational work of the Canadian Pension Committee but as yet it has not submitted its report. We have not received any further word from the Minister on the subject.

Mr. WINCH: I think we are entitled to ask why after two years they are still not in a position to report.

The CHAIRMAN: All right.

26. WAR VETERANS ALLOWANCES. The Committee made the following recommendations:

- (a) the Committee, after taking note of the increasing number of over-payments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

Comment by the Auditor General: In paragraph 141 of my 1966 Report to the House I have advised that the War Veterans Allowance Regulations with respect to mortgages have been changed to achieve the objective of (b) above which may now be considered to have been implemented.

No action has been taken yet regarding (a) and (c) above.

Subparagraph (b) has been taken care of but the other two are still outstanding.

Mr. HENDERSON: I have not seen any action on (a) and (c) as yet. Again, this is referred to in my 1966 Report in like terms but we have had no further word as yet on this one.

27. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following two have not yet been implemented:

- (a) Sales of goods unclaimed at Customs—
that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (b) Determination of sale price for sales tax purposes—
that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In reiterating these recommendations in its Fifth Report 1966, the Committee stated that it was disturbed that no attention had been paid to them. The Committee then made an additional recommendation:

- (c) Refund of duty paid on goods diverted to use other than that for which they were imported—that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported.

Comment by the Auditor General:

(a) On January 9, 1967 the Minister of National Revenue advised that the practice of the Department was being provided for by adding the following to the Customs Warehousing Regulations:

The Minister may in whole or in part exempt from the charges prescribed in Schedule A, goods sold pursuant to sections 23 or 127 of the Customs Act where the proceeds thereof, having first been applied to the payment of duties and taxes, are not sufficient to pay such charges in full

We had been aware of this proposal and on December 21, 1966 had advised the Department that, in our opinion, section 273(g) of the Customs Act contemplates that warehouse charges be uniform regardless of the ultimate disposition of the goods, and that section 23 of the Act required that goods be destroyed if duty and costs are not recovered. We asked that a written opinion as to the legality of the proposed amendment be obtained from the Department of Justice. We have not as yet been provided with a copy of such an opinion.

(b) This matter has not yet been resolved and may depend on the action taken on the Report of the Royal Commission on Taxation.

(c) On January 10, 1967 the Department advised that an appropriate amendment to the Customs Act was being prepared.

The CHAIRMAN: It is a matter of getting statutory sanction to do some of the things that they were doing with respect to warehouse charges and so on. The Auditor General has made three comments, (a), (b) and (c).

On January 10, 1967, the Department advised that an appropriate amendment to the Customs Act was being prepared.

Mr. WINCH: As you know, Mr. Chairman and Mr. Henderson, for four years I have been raising this matter and it was gone into very thoroughly in the last two years. If my recollection is correct, and I am certain it is, we gave the strongest condemnation in respect of certain practices. It is my information that these practices are still being continued. Can we therefore ask for an explanation beyond what Mr. Henderson has to say.

Mr. HENDERSON: You should obtain that explanation from the officials of the Customs and Excise Division, Mr. Winch. I recall the discussion which took place last year, I think—

Mr. WINCH: At which the Deputy said they actually did not have the power.

Mr. HENDERSON: Of course you are referring to (b). Determination of 'sale price' for sales tax purposes, and we almost seem to have gone the full cycle on this. I think it was 1950 when they had the special committee investigating this, and Mr. Carter was the chairman. That was 16 or 17 years ago and now we are awaiting action on the Report of the Royal Commission on Taxation of which Mr. Carter is the chairman.

Mr. WINCH: I realize there has been a full cycle, but in view of the evidence that we were given by the Deputy Minister on this matter about a year ago, which is an actual negation of the right of Parliament—taking action without the authority of Parliament, how long does this Committee wait then for any action on something which they themselves admit they had no power to do but they are still continuing.

Mr. HENDERSON: When this item comes up for discussion in your examination of my 1966 Report you might wish to invite the Deputy Minister back to speak on the points you raise.

The CHAIRMAN: Well, that just puts it one year on, Mr. Winch. Is it not a matter of having legislation passed?

Mr. WINCH: But they have been promising it all the time.

Mr. HENDERSON: There was a full discussion of this, Mr. Chairman, as Mr. Winch points out. It is something that I know they have in hand but at the moment, of course, they are waiting on what happens to the Carter Report because that continues to be one of his recommendations—although I cannot just say off hand whether he speaks of this in the Royal Commission on Taxation because it is so largely centered on the income tax. However, I believe there is a section.

The Royal Commission on Taxation, concentrates so heavily on income tax, Mr. Winch, that if my memory serves me right, I—

Mr. WINCH: I have not been able to read the entire six volumes. I have tried to go through it, but I cannot see anywhere in the six volumes where this matter is discussed.

Mr. HENDERSON: It is our understanding that this Royal Commission has not dealt with this in the six volumes.

28. GENERAL ELECTION EXPENDITURE. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

Comment by the Auditor General: In paragraph 57 of my 1966 Report to the House I have outlined certain financial aspects of the administration of the November 1965 general election, one of which related to the making of accountable advances to election officers. On February 3, 1967 I drew to the attention of the Chairman and Vice-Chairman of your Committee the notice of motion, appearing on page 1222 of Votes and Proceedings No. 192 of January 24, 1967, that the Standing Committee on Privileges and Elections be empowered to study the Canada Elections Act and to report to the House such proposals as the Committee may deem advisable. I suggested that your Chairman might wish to draw the Committee's recommendation to the attention of the Standing Committee on Privileges and Elections.

The CHAIRMAN: You will recall that the House set up the Committee of Privileges and Elections on January 24 of this year. They have not met to discuss the election points but I, as your Chairman, will send a letter to them regarding the recommendation of this Committee, wherein we reported that we thought the Chief Electoral Officer should advance money on the accountable advance system to overcome cases where Electoral Officers had not paid their bills and yet they had been given the money to pay them with.

Mr. HENDERSON: We had a few cases of that type, Mr. Chairman, but the essence of this particular recommendation of the Committee is that the Canada Elections Act might be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff.

This is a matter on which you will want to act along the lines you say, and I think that would be very useful if you could do so.

The CHAIRMAN: Mr. Tardif, you are the only member of the Public Accounts Committee that sits on the Privileges and Elections Committee so when that matter comes up you will be all informed and ready to speak on it.

Mr. TARDIF: Mr. Chairman, I think I should tell you that I am on some of these committees for the purpose of making quorums. At least three of the committees that I am on meet at the same time on the same morning.

The CHAIRMAN: Well, that will be one you will make.

Mr. TARDIF: My responsibility that morning is to move from one room to another to make quorums.

The CHAIRMAN: With that thought in mind, there are some members here this morning who want to go to the Committee on Agriculture at 11 o'clock.

Number 29 is next.

29. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966 the Committee repeated this recommendation.

Comments by the Auditor General: On November 29, 1966 the Minister of Finance advised that he had considered this matter with his colleagues chiefly concerned and concluded that these bodies should be audited by public accountants and not by the Auditor General. The considerations entering into this conclusion were stated by the Minister as follows:

By the very fact of incorporation, these Crown corporations are intended to have a large measure of responsibility for the performance of their statutory functions and to be able to function more or less as other companies do, and in several instances to compete with them. They are intended to be more independent than departments which are held accountable through Ministers to Parliament for day to day administration.

Indeed, because they are commercially oriented and are intended to operate at arm's length from and without the day to day governmental and parliamentary surveillance that is the case with government departments, it would seem proper that these Crown corporations should, as a matter of policy, be audited by public accounting firms that would treat and serve them in the same way as they would treat and serve any other commercial corporation. Such a policy will best ensure that the arm's

length relationship and the operational independence and freedom of these corporations conferred on them by Parliament are adequately safeguarded and that the corporations have the use of the same kind of commercial accounting advice from their auditors that privately owned companies have. The practice of including the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee and enables that body to examine the reports and to call the presidents and other officers, and, if desired, the auditors before it.

The foregoing has led me to the conclusion that no change should be made in our present practices. This view is reinforced by the policy followed in the United Kingdom where, after careful consideration, the decision was taken and was subsequently confirmed after re-examination, that the accounts of the nationalized industries should be audited by public accountants and not by the Comptroller and Auditor General. You will find the considerations that led to this conclusion set out in paragraphs 29 and 32 of the Report from the Select Committee on Nationalised Industries, House of Commons Paper No. 235 of July 23, 1953.

This deals with Crown corporations and we recommended that the Auditor General be the sole auditor, or a joint auditor; this was the recommendation made by this Committee.

The Auditor General comments on it and lists as well the letter from the Minister of Finance who does not agree with the Committee's recommendation, and he gives the reasons why he does not agree with this.

Mr. WINCH: Could I ask one question? I have not read the letter from the Minister. Does he explain at all why it is correct and necessary for the Auditor General to be the co-auditor, or joint auditor on certain Crown corporations, and not on others? I mean, why does the principle apply one way and not the other way?

Mr. HENDERSON: That, I am afraid, I cannot answer in fairness to the Minister of Finance. He has set down his views on this matter and, as you know, in accordance with your direction your recommendation has been incorporated in the proposed act for the Auditor General which will be coming up for discussion at a subsequent meeting. The principle involved here will presumably come up for discussion at that time. You have not had any witnesses before the Committee to elaborate on the Minister's reasoning. As you can see here, it was only on November 29, 1966 that Mr. Sharp was good enough to set out his reasoning. I think you would wish to have a thoroughgoing discussion of this point at that time, perhaps with a witness, or amongst yourselves.

Mr. WINCH: That is what I was going to suggest, Mr. Chairman, because there is a matter of principle here. Somewhere in the mind of the Minister, or of his department, there must be a line of demarcation, and I believe this Committee should know just what the line of demarcation is, and why. I would respectfully request that when this matter comes up we ask the Minister or the Deputy Minister to appear before us to explain.

The CHAIRMAN: Very briefly, Mr. Winch, I think the Minister's thinking on this is that Crown corporations were set up to be, as he describes them, at arm's

length from government operation or government interference, and that they should operate as any other independent commercial organization and be divorced entirely from government. I am not saying that I agree with this, but this is the Minister's viewpoint.

Mr. WINCH: I completely agree on divorce from policy and administration, but on auditing. So therefore, for our information, Mr. Henderson, could you tell us how many Crown corporations you audit now?

Mr. HENDERSON: The precise number is, of course, contained in my report to the House each year, Mr. Winch. If you will pardon me one minute, we will add them up.

Mr. BIGG: Mr. Chairman, it is all very well to talk about arm's length, but who picks up the tab when these Crown corporations go in the hole?

The CHAIRMAN: It is a short arm then.

Mr. HENDERSON: The answer is 26, Mr. Winch.

Mr. WINCH: I only asked that question because of your impression of the Minister's view. If it applies to one corporation, why not the other? You are already auditing six Crown corporations.

Mr. TARDIF: As a matter of fact, Mr. Chairman, as a supplementary question, all these Crown corporations are being audited by recognized firms of auditors; what would shorten the arm? If their business is not a profitable business, the firm of auditors that audits them will make an honest report. There is no question. It seems like a reflection on the people that audit these firms.

Mr. WINCH: There is no report to Parliament or to this Committee.

Mr. TARDIF: Excuse me; every Crown corporation issues a regular report to the Minister and to Parliament. There is an auditor's report on every one of these Crown corporations available. There is a yearly financial statement on every one of these Crown corporations.

Mr. WINCH: Mr. Tardif, that is absolutely correct. But, unless it reports to Parliament through the Auditor General, we cannot discuss what goes on. Only by reporting to Parliament, or to this Committee, can we deal with the matter if we have any questions. I think that is the important thing.

Mr. TARDIF: Actually, Mr. Chairman, Parliament is the authority; not this Committee. If that were the principle that should be followed, then there should be somebody to audit the Auditor General.

The CHAIRMAN: The other side of the coin, Mr. Tardif, is the continuity of auditing, which is worth quite a bit, I think, to members of Parliament. If the Auditor General were co-auditor, he would be on there year in and year out, and taxpayers' money is involved. It is a good argument.

Mr. TARDIF: If that is the case, it means that we already have complete confidence in the firms that audit these companies. I am sure if the Auditor General, instead of being the Auditor General, were the head of an auditing company auditing a Crown corporation, he would not like to have his statement questioned by anybody; these people have a reputation. With a large company, if a firm of auditors is changed from one year to another, it does not make a great deal of difference. The audit goes on just the same and even if there is no continuity, there are only two sides to a ledger.

The CHAIRMAN: Mr. Cameron has one question.

Mr. CAMERON (*High Park*): I notice the last sentence of the Minister's letter reads as follows:

The practice of including the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee and enables that body to examine the reports and to call the presidents and other officers, and, if desired, the auditors before it.

That would seem to me to be a complete answer to Mr. Winch's allegation that they do not come before this Committee; that they cannot come before this Committee.

Mr. HENDERSON: I would also add to that, Mr. Cameron, that at the meetings of this Committee last fall, you did in fact have one of these corporations appear before you—the Central Mortgage and Housing Corporation.

The CHAIRMAN: Certainly; I might add that we asked for the auditor's reports of the Central Mortgage and Housing Corporation, and we were refused them; we never did get them.

Mr. BIGG: That is right.

The CHAIRMAN: We got the financial statement, but when we asked for the reports—

Mr. WINCH: We were refused.

Mr. FORBES: If we had the auditors appear before the Committee, after the Auditor General—

Mr. WINCH: That is the very point. We may ask, but they can say, yes or no. I can remember two or three occasions when they agreed to come, but as you just have been told by the Chairman, when we wanted certain information from Central Mortgage and Housing they refused to supply it.

Mr. TARDIF: Mr. Chairman, the auditor's reports of these Crown corporations are submitted to Parliament.

Mr. BIGG: Yes, but who is to examine them?

An hon. MEMBER: Cannot Parliament refer them to us?

Mr. BIGG: Where are you going to examine them, on the floor of the House?

Mr. WINCH: No, no, but can they not refer them to us if they want to?

The CHAIRMAN: Mr. Lefebvre and then Mr. Southam.

Mr. LEFEBVRE: I refer to the same sentence as Mr. Cameron. It seems to me to clear up the question that Mr. Winch has quite well. I cannot see where there is anything in that sentence that prevents our asking these people to come before us just as we ask any other department.

The CHAIRMAN: Just a minute. Mr. McLean—

Mr. BIGG: Only the ones before the Auditor General.

The CHAIRMAN: Mr. McLean has asked for that sentence to be read again.

Mr. HENDERSON: Perhaps I could clear this up for the benefit of the Members, Mr. Chairman. It is the Public Accounts of Canada which are referred to this Committee, and that includes the financial statements with the Auditor's certificate in every case—the ones I audit and the ones audited by the private firms. They are all in the Public Accounts; therefore, it is entirely a matter for

this Committee which ones it wants to summon, or call; and you are completely entitled to call any of them. Their statements are contained in Volume III of the Public Accounts.

Mr. WINCH: Yes; but, Mr. Henderson, this is the point I am making, as have others, that we have enabled the board to examine the reports and to call the presidents and other officers and, if desired, the auditor before it; but the fact still remains that on occasion when we have asked for certain information and certain books we have been refused.

Mr. HENDERSON: Neither I nor my auditors were present at that meeting, Mr. Winch.

Mr. LEFEBVRE: I do not agree with that last statement. I cannot recall that.

The CHAIRMAN: Yes; it is right in the Follow-up Report.

Mr. WINCH: Mr. Chairman—

Mr. LEFEBVRE: When we called a witness he refused to come?

Mr. WINCH: No, no.

The CHAIRMAN: Gentlemen, I will read it to you:

56. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Comment by the Auditor General: We understand that this report has not yet been received by the Chairman of the Committee.

Mr. WINCH: That was 1963 and 1964, and we still do not have it.

The CHAIRMAN: That is right.

Mr. TARDIF: But we had CMHC before this Committee.

The CHAIRMAN: Yes, we did.

Mr. TARDIF: And we asked them all the questions that we wanted to ask, and they answered every question.

The CHAIRMAN: Except when we asked for the Auditor's Report. They refused to give it to us.

Mr. LEFEBVRE: The Auditor's Report is tabled in the House, is it not? It is available to every Member.

The CHAIRMAN: The difference is that the Financial Statement is tabled in the House, but not—

Mr. BALLARD: Mr. Chairman, in order to clear this up, this book that we have in front of us is the Auditor General's Report. There is a lot of material in this report, but it is not the Financial Statement of the Dominion of Canada. The Financial Statement of the Dominion of Canada would probably comprise perhaps half a dozen pages.

I maintain that the report that you get, that we see as Members of Parliament, from a private firm of auditors is the Financial Statement and the formal Auditor's report which just indicates that they have done a certain amount of work and have found things in order, or otherwise; but, actually, I think that what this Committee should have is a report from the external auditors, such as we get from the Auditor General where he comments on the various things that he finds in the course of his examination. I think that this is the reason why some Members of the Committee would like to have the Auditor General involved as an auditor in all Crown corporations; and that is one of the prime reasons; so that, first of all, we could discuss the weaknesses that the Auditor General finds on the examination of a Crown corporation and also have the opportunity to discuss them frankly with the auditor.

Now, the reports by external auditors that we have filed with the House of Commons do not include the depth of material that we require in order to be satisfied that a particular Crown Corporation is operating in the manner that we expect, and I think that this is the main argument in favour of having the Auditor General as at least a joint auditor of all Crown corporations. There are other reasons, but I think that this is the main one.

Mr. LEFEBVRE: Mr. Chairman, in number 56 here:

The Committee is of the opinion that it is entitled to be furnished with copies of all reports made...

This is even more than we are getting now for those departments and Crown Corporations that the Auditor General is auditing. We are not getting all these reports now. We are getting the comments of the Auditor General.

Mr. HENDERSON: No; Mr. Lefebvre—

Mr. LEFEBVRE: We are asking for more there than we are getting from all other government departments.

Mr. HENDERSON: If I may explain, included in this report, under the Crown corporations section, is a description of the operations of the corporation during the year under review and the comments and suggestions that I have made in connection with my examination. Behind these reports are the long form reports which I send to the Boards of Directors and to the Minister responsible in each case and which are made available to you as and when you wish to examine them.

Now, you will see one of these long form reports next Tuesday when you call the president and officers of Crown Assets Disposal Corporation. We shall be distributing this to you in order that you may follow, and understand, the workings—

Mr. LEFEBVRE: It will be distributed by you, sir, to us?

The CHAIRMAN: You already have it. It has been distributed to all the Members.

Mr. HENDERSON: It has already been distributed so that you may study it before—

Mr. LEFEBVRE: By your office?

The CHAIRMAN: No; the Crown Assets Disposal Corporation has sent their financial statement to each Member of Parliament.

Mr. LEFEBVRE: All right.

Mr. HENDERSON: Now, the summary in my report to the House contains all the material of any significance which, in my view, the House should know in connection with the affairs of that Corporation. You will find that confirmed when you see it, for example, when Crown Assets Disposal Corporation is here.

If you wish, they can all be tabled. It is a working document, because after we complete the audit of a corporation we should know something about its internal operation; and we feel that it is useful to give its management the benefit of this, together with the comments and suggestions we have to make and which have arisen in our discussions with the corporation.

Mr. LEFEBVRE: Do you audit the Crown Assets Disposal Corporation at the present time?

Mr. HENDERSON: Yes.

Mr. LEFEBVRE: Now, the same thing could be applied to some of those that you do not audit? This is what we could ask for?

Mr. HENDERSON: That is entirely—

Mr. LEFEBVRE: I suggest, Mr. Chairman, that we make the same request the next time we deal with a Crown corporation that is not audited by the Auditor General's office.

The CHAIRMAN: That is what we did; he did make that request of Central Mortgage and Housing Corporation and we did not—

Mr. LEFEBVRE: If you have it here, would you mind reading out the specific question and answer from the proceedings and minutes of that meeting, because I do not recall it?

The CHAIRMAN: We will look them up. In the meantime, will Mr. Southam comment?

Mr. SOUTHAM: Mr. Chairman, my comments were going to be somewhat along the line of my friend, Mr. Ballard.

What worries me is the inconsistency here. The Auditor General has access to, and co-audits, some of the Crown corporations, and some he does not. Now, this bothers me. Why should there be this inconsistency? Why are these exceptions made? Why cannot we have a policy right across the board for the sake of the Committee?

After all, even if the Minister likes to keep these at arms length, we, as taxpayers, are interested in the disposition of the taxpayers' funds. If the Auditor General, in his wisdom, finds that there are certain practices that he does not think are in the best interest of the taxpayer, they should be brought to our attention, as a Committee. This is our function. I think it should be Yes or No right across the board. I do not think that there should be exceptions made.

Mr. WINCH: On the ground that the Public Accounts Committee, apart altogether from the Auditor General, is the watch dog of—

Mr. TARDIF: That is right.

The CHAIRMAN: May we summarize our discussion here on Crown Corporations by coming to this conclusion...?

Mr. FORBES: May I ask one question?

The CHAIRMAN: Yes.

Mr. FORBES: Did CMHC tell you why they would not produce their report?

The CHAIRMAN: Yes. I will read a letter from them immediately, which will explain that.

I was going to say that we could summarize our thinking by saying, in the case of these eight corporations that are not audited by the Auditor General, that in view of the statement made by the Minister of Finance where he says that

... the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee...

we should ask these eight corporations to appear before this Committee and bring with them their auditors.

Now, last year we made the innovation of inviting Central Mortgage and Housing Corporation to come. They came, but they did not bring their auditor with them. Those involved are Air Canada, Bank of Canada, Canadian National Railways, The Canadian National Railways Securities Trust, Canadian Wheat Board, Central Mortgage and Housing Corporation, Industrial Development Bank and The Company of Young Canadians.

We could ask each one of those who appear before us to bring their financial statement and their auditor with them.

Mr. BALLARD: Mr. Chairman, could you also insist upon them bringing with them the auditor's long form report?

The CHAIRMAN: We asked Central Mortgage and Housing for that and they refused to give it to us. Mr. Hignett, the president, in answer to a letter that I wrote, replied to the Secretary as follows:

You may remember that when I represented the Corporation before the Committee I explained that the Central Mortgage and Housing Corporation Act provided that "The Minister, with the approval of the Governor in Council, shall appoint two Auditors to hold office for a term not exceeding two years to audit the affairs of the Corporation".

The Corporation's Board of Directors has always regarded the audit report prepared by the External Auditors as a report to the Minister, and not to the Corporation. The Board of Directors would of course accept any direction given by the Minister as a result of the Auditors' Report to him. Under the circumstances the Board has felt that the Corporation should not make the report of the External Auditors available to anyone but the Minister.

As you know, the Corporation is also required by legislation to transmit to the Minister at the end of each fiscal year a statement of its accounts, signed by the President and Chief Accountant, and certified by the Auditors, together with such report as the Board may deem desirable or may be required by the Minister. A copy of the statement of accounts, so signed and certified, and a copy of the Report of the Board are published in the Canada Gazette, and if Parliament is sitting are laid before Parliament, or if Parliament is not sitting are laid before Parliament within 14 days of the commencement of the next session. These reports were used as the basis for discussion before the Committee on the 8th November.

Under the circumstances, and in accordance with past practice, the Corporation is unable to comply with your request that the reports prepared by the External Auditors be forwarded to you.

and yet the Minister of—

Mr. CAMERON (*High Park*): This is good, sound legal opinion for the auditors to take.

The CHAIRMAN: In other words, Mr. Cameron, you feel that they should not give the auditor's report to this Committee?

Mr. CAMERON (*High Park*): Until the law is changed or until you convince the Minister that they should be available to this Committee you can certainly call the auditor, but you will not have the benefit of certain things that the auditors may have pointed out to the Minister in the operation of the crown corporation involved which have not been, in their opinion, within their powers or have been improperly done, and so on. You have to dig that out for yourself when you have them before you. You do not have the benefit of Mr. Henderson's services in looking through a report and saying, "These are the things that I want to comment on. These are the things I want to call to the attention of the Committee". I think the principle involved is in the first sentence of that second paragraph, in which the Minister points out that these crown corporations are of a different character from other crown corporations which we have and they should report to this Committee in the way that we would like them to do.

Mr. SCHREYER: Mr. Chairman, do you infer from that letter, as I do, that if you had requested this report from the Minister, in which he reported to CMHC, that it would have been furnished?

The CHAIRMAN: It is questionable. I doubt, according to the Act, that the Minister would furnish it.

Mr. SCHREYER: Well then, that letter is in flat contradiction to the statement made by the Minister of Finance which is set out on page 14. After all, the Minister of Finance says that it is simply a case of requesting that the annual reports of these crown corporations be put before the Committee and, if the Committee wishes, the officers of these crown corporations and the auditor's reports will be before us, as well as the auditor. Now, that is contradicted by the letter—

Mr. TARDIF: May I ask where you found the comment of the Minister of Finance?

Mr. SCHREYER: It is on page 14.

Mr. WINCH: The last sentence of the third paragraph.

The CHAIRMAN: I do not think it is contradictory.

Mr. TARDIF: Excuse me, I was reading the comments of the Auditor General.

Mr. SCHREYER: In this sentence it is contradictory, Mr. Chairman, but the Minister of Finance says in the last sentence of the second paragraph of his letter that the auditor's reports of those crown corporations which are not subject to auditing by our Auditor General can be brought before the Committee simply by calling them. We can examine the reports, call the officers of these crown corporations before us and, if desired, the auditors as well, but the letter from the president of CMHC is to the opposite effect.

Mr. LEFEBVRE: He is not denying that he may have to appear before this Committee if he is called. He is saying that he does not have to give us the long form report because, according to the Act, this is given to the Minister con-

cerned. The Minister does not state that in his letter. I do not find any contradiction of any kind.

Mr. McLEAN (*Charlotte*): Mr. Chairman, does it not say in your letter that it is up to the Minister?

The CHAIRMAN: Yes.

Mr. McLEAN (*Charlotte*): The Minister says you can have the report.

The CHAIRMAN: The Minister of Finance says you can, but Mr. Nicholson misunderstood what I was asking for in my letter. I asked him for the audit reports that were prepared and he sent me the financial statements. He did not send the auditor's report.

Mr. WINCH: Mr. Chairman, I would like to ask one question through you of Mr. Cameron which, to me, is very important. Do I understand from what Mr. Cameron said a few moments ago that although the taxpayers, through Parliament, subsidize or make the money available for Central Mortgage and Housing to the extent of hundreds of millions of dollars—it is now well over one billion dollars—this Public Accounts Committee, which is the parliamentary watch dog of expenditures, is not entitled to receive all the information on this matter? Is that basically what he is saying?

Mr. CAMERON (*High Park*): If you write him a letter you can get any information you want.

Mr. WINCH: But we have been refused the information we want.

Mr. McLEAN (*Charlotte*): By the underdog, not the top man.

Mr. LEFEBVRE: Also by the Minister, according to the Act. What I would like to clear up, Mr. Chairman, is that somebody here said there was a distinct refusal by CMHC to give us information that was asked for. Apparently this is not true, and this is an important point that I would like to clear up this morning. Apparently you asked for something that was misunderstood or you asked for something you did not think you were asking for. I would like you to read this out so that it is very clear this is not the case.

The CHAIRMAN: There is no misunderstanding, Mr. Lefebvre. The Committee asked the president of Central Mortgage and Housing for a copy of the formal Auditor's Report and this was refused by the president of the corporation. I then wrote to the Minister responsible for that department under date of December 9, and in my letter I asked him for a copy of the audit reports. He wrote back on February 2 saying, "In accordance with your request dated December 9, I enclose herewith copies of the auditor's report". In other words, he sent the financial statement, he did not send the auditor's report.

Mr. LEFEBVRE: But what we have seen is that everything so far has been done according to the Act; that they report directly to the Minister?

The CHAIRMAN: Yes.

Mr. LEFEBVRE: So there is nothing illegal or of any nature that may cast doubt as to the way they are doing business?

The CHAIRMAN: No, other than that the Minister of Finance says in his letter that the auditor's reports should be made available to this Committee.

Mr. BIGG: If this is not done we will have to ask for it again, and we can see how long it takes to get it.

The CHAIRMAN: Well, according to the Act he does not have to, so you can ask for it every day.

Mr. LEFEBVRE: Well, we want to change the Act, that is the whole point.

Mr. WINCH: May I ask if my friend—

The CHAIRMAN: Gentlemen, in order to conclude the matter I will again write to the Minister who is responsible for this. I regret I did not do this earlier, but I will say that it was the auditor's formal reports that I was requesting, not the financial statement, and see what the Minister says.

Mr. SCHREYER: Mr. Chairman, I would suggest that when you write to the minister reporting for CMHC that you quote the last sentence of the second paragraph of the letter from the Minister of Finance dated November 29.

The CHAIRMAN: We will have to come back to this point. It is still not settled.

Mr. CAMERON (*High Park*): There is one observation I would like to make with respect to the last paragraph. The policy that is being followed is apparently the same policy that is followed in the United Kingdom with similar corporations.

Mr. BIGG: They are in big trouble in the United Kingdom right now.

Mr. CAMERON (*High Park*): That may be, but I am talking about the United Kingdom.

Mr. LEFEBVRE: Is that the reason?

Mr. BIGG: To the tune of about \$800 million.

Mr. CAMERON (*High Park*): I think the Chairman has put his finger on the fault. We could write to the minister involved, set out the situation and ask him for the answer.

The CHAIRMAN: Right.

Mr. CAMERON (*High Park*): And then you can deal with it.

The CHAIRMAN: We will now proceed with number 30.

30. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

In its Third Report 1966 the Committee reiterated this recommendation.

Comment by the Auditor General: On January 24, 1967, the Minister of Finance advised that:

... I know of no precedent for the proposal that a Committee of the House should be given the responsibility for making the nomination that is here proposed.

In considering this recommendation of the Committee, I have noted that, in accordance with the legislation of Parliament, the appointment of two officers to act as servants of Parliament—the Auditor General and the Clerk of the House of Commons—are made by the Executive and not by the Speaker or Parliament. I should think that the nomination by the Treasury Board of a person to examine the receipts and disbursements of the Auditor General's Office and to certify to the House of Commons in accordance with the outcome of his examination is wholly in accordance with these precedents. Moreover, it must be recognized that the government accepts some responsibility in regard to the Auditor General's expenditures as it must recommend them to the House of Commons. Accordingly, I do not believe any change should be made in the law.

This deals with who audits the Auditor General. It has been an officer of the public service nominated by Treasury Board and we recommended that Parliament should appoint two officers to act as auditors, and this is to be done through the Public Accounts Committee. Mr. Sharp, the Minister of Finance, acknowledged that and did not agree with our recommendation. Is there anything further to add?

Mr. HENDERSON: I have no further comment on that, Mr. Chairman.

Mr. TARDIF: Mr. Chairman, what would be the difference if it were changed? Is it found unsatisfactory now? Is the check that is being made by the people appointed to do it not right? Why is there a change?

The CHAIRMAN: What was the thinking of the Committee on that? Can someone refresh my memory?

Mr. WINCH: As I understood it, it was not a matter of going over the recommendations or the decisions of the auditor, it was the audit of the Auditor General's branch. That is all we were interested in.

Mr. TARDIF: Yes, but why the change to the prevailing methods?

Mr. WINCH: To make the Auditor General a little more careful.

Mr. HENDERSON: Mr. Chairman, the matter came up several years ago and my recollection is that the Committee felt rather than appointing officers from the executive, whose accounts I in turn check, namely, the Treasury, that the Committee would like to nominate someone—

Mr. WINCH: An outside auditor.

Mr. HENDERSON: A private firm, possibly, or perhaps some member of the House.

The CHAIRMAN: I think the thinking was that in business you do not have someone on your staff audit your own books, you bring someone in from outside.

Mr. TARDIF: You have the internal audit checked by an outside firm, but I do not know of any business that can afford to have auditors check on auditors who are checking on auditors.

Mr. WINCH: I am sorry, there must be a misunderstanding here. It is not checking the auditors' check on auditors; it is a check on the auditor's department.

The CHAIRMAN: That is right.

Mr. WINCH: On how he operates on his own expenditures and that is all, nothing else.

The CHAIRMAN: That is right. Mr. McLean, did you have a question?

Mr. CAMERON (*High Park*): Why do you think it would be better to have the Committee nominate someone to do that than the Treasury Board?

Mr. WINCH: As long as they are outside auditors, not auditors checking on the auditor's own department.

Mr. TARDIF: Mr. Chairman, there seems to be a great deal of lack of confidence in auditing firms in Canada. For instance, you say as long as they are outside auditors, but if you have an internal auditor or if you have a member of the Treasury Board, there are a great percentage of these people in Canada who have a good reputation and they are honest. Every time you speak about an auditor you seem to imply that auditors should check auditors, and vice versa.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would like to ask the Auditor General if, in the crown corporations which he audits, he is the chief auditor? Is he the top man?

Mr. HENDERSON: No, I am not necessarily the top man. I do not know in quite what sense this applies, but the corporations, Mr. McLean, have—

Mr. McLEAN (*Charlotte*): Do the ones that you audit now have other auditors?

Mr. HENDERSON: For the most part they have internal audit staffs.

Mr. McLEAN (*Charlotte*): Just internal?

Mr. HENDERSON: They have internal people on their own staffs who carry out a detailed program. You know from our discussions in this Committee that my work of necessity is a test audit.

Mr. McLEAN (*Charlotte*): Yes.

Mr. HENDERSON: And it is the extent to which the internal audit staff is efficient that I am able to rely on it to a considerable extent. I think that is what you would wish me to do.

Mr. McLEAN (*Charlotte*): That is what I want to know.

Mr. HENDERSON: As the external auditor I have to take the final responsibility when I sign the accounts of that corporation.

Mr. McLEAN (*Charlotte*): That is fine, but these crown corporations that you do not audit at the present time not only have internal audits, they also have outside audits?

Mr. HENDERSON: That is correct.

Mr. McLEAN (*Charlotte*): If your audit does not coincide with the outside audit, what is going to happen? If you went in as co-auditor and both you and they audit the outside auditors—

Mr. HENDERSON: We would pool our efforts in the same way that I am—

Mr. McLEAN (*Charlotte*): Yes, but there must be a top authority.

Mr. HENDERSON: I want to make it abundantly clear that the principle involved in this case—the desirability of my moving in either as auditor or joint auditor of these seven corporations whose accounts my office and I have never

examined—arose in this Committee. I did not bring it up. The Committee asked me what the practices were in other countries. If my memory serves me right it was about two or three years ago when the matter first came up in this way and in a lengthy statement I described to you the practices which existed in other countries. You discussed these practices and you saw fit to make this recommendation. I should also like to add that I have the highest possible regard for the private sector of my profession in this country. I myself am a member of the Ontario Institute, the Quebec Institute and the Nova Scotia Institute. I served for many years on the staff of one of the big national auditing firms in Canada. I desire to cast not the slightest reflection on their ability, and I think Mr. Tardif is completely right when he points out—and I was glad to hear him say it—that the standards of my profession are high.

At one stage in the proceedings you asked me if the principle of the Auditor General being in there as auditor or joint auditor—because it was public money—was one with which I agreed and, if my memory serves me right, I replied that it was a principle with which I could not disagree. Beyond that I do not wish to press the matter or have anything further to say. It is a matter for you to discuss, and therefore in the drafting of the act concerning my office—which I have also done pursuant to your committee recommendation—there has been incorporated this particular recommendation. If you see fit to alter it at some later date, that is your privilege.

Now, I do conduct joint audits and I know that they work. I have a very happy working arrangement with an international auditing firm on the accounts of Polymer Corporation overseas. I do Polymer Corporation in Canada myself but I do it jointly—a joint and several liability—with this private firm overseas. I think some of you will remember our discussion about this in the Committee. I am also the joint auditor with the provincial auditor of Quebec on Expo 67, an arrangement which enables us to spread the work load and both Mr. Tremblay, the provincial auditor, and I sign the accounts, I think we are now into our fourth year on this. In my experience joint audits are perfectly feasible, but the decision in this matter is entirely yours and Parliament's, sir.

Mr. McLEAN (*Charlotte*): I would like you to be able to ride herd on these people, but not to accept joint responsibility.

Mr. HENDERSON: Please understand that I do not approach the matter in that spirit at all, Mr. McLean.

Mr. McLEAN (*Charlotte*): Well, I do. If this Committee wanted something investigated I think it has the right to tell the Auditor General to go ahead and investigate it.

Mr. HENDERSON: It is my job to carry out Parliament's instructions. Beyond that I have nothing further to add. Believe me, I am not looking for any extra work. I have plenty.

The CHAIRMAN: That answers the question of joint auditors.

Mr. McLEAN (*Charlotte*): I can see the present crown corporations having internal audits, and you are the top man.

Mr. HENDERSON: The external auditor perhaps does appear, shall we say, as the top man because it is his signature which has to go on the accounts.

Mr. McLEAN (*Charlotte*): All right.

Mr. HENDERSON: But he naturally welcomes an efficient internal audit department, and most of the crown corporations whose names we have mentioned here have efficient internal audit systems.

Mr. BALLARD: Mr. Chairman, as a member of the profession, I am a member of the Alberta Institute, I think that the tenor of the discussion of the Committee has not been out of line. I think that it is unfortunate that some members of the Committee have taken the attitude that other members of the Committee are saying that you cannot rely on external auditors because this is absolutely not the thinking of the majority of the members of this Committee. I am sure that I speak for most members when I say that we have the greatest confidence in the external auditors that the Government employs and, as a matter of fact, all other auditors in the country. I think that a wrong interpretation has been placed on the discussion by two or three members. We are not questioning the integrity, the ability or the professional ethics of the members of the accounting profession, but I do think—and I think that this must be reiterated—that some members of this Committee have found in respect of the system presently employed under the Financial Administration Act, as outlined by Mr. Cameron so well, that the legal limitations placed on this Committee by the said Act preclude this Committee from giving the same thorough examination to the auditor's report that it is able to give to the report supplied by the Auditor General.

The question is not whether or not we employ external auditors. The fact is that we have not had made available to us the information that the external auditors filed with the Minister responsible for a particular company. If we were able to have this information, I am sure it would solve a lot of our problems, and would probably put the whole question in a different light. I certainly do not think that anybody is questioning the integrity or ability of external auditors; it is just that we have not had made available to us the information that we desire in connection with companies' audits where only external auditors are employed.

Some hon. MEMBERS: Hear, hear.

The CHAIRMAN: Following that very excellent explanation, we come to policy, and Mr. Cameron touched on this. Should or should not these Crown corporations be kept at arms length, operated on the basis of an ordinary commercial company, and the necessary information, auditors report and formal auditors report, supplied to this Committee? This, I think, is a policy matter which we here are unable to settle.

Mr. LEFEBVRE: We have had a good discussion.

Mr. BIGG: Has there been any suggestion that in this Committee we have interfered with the internal workings of any department or Crown corporation? I do not think that any Canadian officials could say that we are interfering with their internal management. The only thing we have ever been worried about was wastage of public money. I can think of one very specific case in respect of the CNR. I know, from personal knowledge, where money is being wasted but I cannot get the detailed information I require at the present time. Perhaps there may be some misunderstanding but if I could get that information I would be quite happy. I have no ill-feeling toward the CNR auditors. I just think that they are not involved.

The CHAIRMAN: Personally, I think we could get the formal auditor's report without interfering with policy.

Mr. WINCH: It goes beyond that, Mr. Chairman.

The CHAIRMAN: Mr. Lefebvre, you may ask one question and then we will proceed.

Mr. LEFEBVRE: I think Mr. Ballard made a very good statement. I am not a member of the profession but I understand what he is talking about quite well although I could not express it in the same fashion.

I would like to make an observation. We have a very long list of recommendations here, Mr. Chairman, but I think we have rushed into some things about which we were not too clear and this has left some of us confused. I hope other members will agree that in future we should be very careful in the way we make these recommendations because there have been doubts raised in some people's minds by newspaper articles and so on as to whether or not we are getting results and receiving co-operation, the feeling being that perhaps we are going at things sometimes in the wrong way.

On page 15, under item 30, this Committee is recommending with the approval of the Auditor General, use of outside auditors; yet, in the case of Crown corporations, we are complaining that they are using outside auditors. I think we should be more consistent. Do we wish outside auditors to audit books of certain Crown corporations or do we not? Do we wish them to audit the books of the office of the Auditor General or do we not? In this connection, I think we are getting mixed up a little bit. I do not know if other members are of the same opinion as I am but from the questions put during the last two meetings it would seem that a number of us were recommending things about which we were not too clear. This is the impression I got from the last meeting as well as this one.

The CHAIRMAN: All these recommendations or reports of ours were gone over by the Committee and discussed. Perhaps they were not discussed enough—

Mr. LEFEBVRE: This is the point which I make, yes.

The CHAIRMAN: . . . but they were passed by the Committee. In respect to the observation you made, Mr. Lefebvre, we did not specify outside auditors; it reads; "be examined by a qualified person nominated by Parliament through the Public Accounts Committee." Some of these recommendations go back as far as 1963 and 1964. This one, I think, was made in 1964.

Your observations are well taken, Mr. Lefebvre, and have been noted.

31. THE ST. LAWRENCE SEAWAY AUTHORITY. The Committee expressed concern regarding the transaction referred to in paragraph 125 of the Auditor General's 1965 Report which involved a piece of property expropriated in 1955 with the expropriation being abandoned early in 1956. The property was eventually purchased in 1964 at a substantially higher price. On November 8, 1966 the Committee asked a subcommittee to inquire into this transaction and to report back to the main Committee.

Comment by the Auditor General: The subcommittee presented its report to the Main Committee on February 23, 1967 and concluded that:

. . . the action of the Department of Transport in 1956 in abandoning the expropriation of certain lands in the Cornwall area was premature

and ill-advised and later a larger sum of money had eventually to be paid in order to acquire this same property. Your Subcommittee also felt that the Department and the Seaway Authority should have learned of the action of the company in laying a pipeline across adjoining land owned by the government without obtaining the necessary authority to do so.

The Authority did not act in the public interest in permitting the property which had been acquired to be divided into more than one parcel for leasing purposes. By doing so, the company was able to abandon one parcel and retain the part for which it had use. As a result, the Authority did not obtain the rental which should have been paid, having in mind the value of the entire portion.

The CHAIRMAN: This was where we appointed a subcommittee to look into the Cornwall land deal. The subcommittee reported, and we consider it implemented.

32. SALARY OF THE AUDITOR GENERAL. The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal has been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

Comment by the Auditor General: On January 26, 1967 the Minister of Finance advised that:

To relate the salary of the Auditor General to that of a group of senior officers whose salaries are determined by the Governor in Council would be tantamount to transferring from Parliament to the Governor in Council the right to set the Auditor General's salary. Bearing in mind the nature of the Auditor General's office, in my view there is merit in having the legislation continue to specify the amount of salary rather than have it to be determined in relation to that of a group of senior executive officers.

The CHAIRMAN: This was laid out in the proposed Act. There has been an act passed in the House which stipulates how the salary is handled and formulated, and the amount has been set. So, this has been taken care of.

Mr. WINCH: It is about time too, it has been ignored for too long.

33. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee requested the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government.

Comment by the Auditor General: In accordance with the Committee's direction, copies of the draft legislation were submitted to the Minister of Finance and the Chairman of your Committee on February 20, 1967.

The CHAIRMAN: We devoted a whole meeting to this matter. It was discussed quite thoroughly, and it will be coming back to us.

35. CHARGES FOR POST OFFICE LOCK BOXES AND BAG SERVICE. The Committee noted that certain Post Office patrons with a heavy volume of mail had lock boxes rented although these would not hold all the mail being received and bag service was being provided to the patron without additional charge. Such patrons are thus being provided with a free service which is not available to other patrons and in some instances lock boxes are tied up which could be used by other patrons. The Committee understands that the Post Office Department has been trying to solve this problem and it insists that the Department expedite its efforts in this connection with a view to having patrons pay equally for services rendered to them and wherever possible to releasing lock boxes which are required by other patrons.

Comment by the Auditor General: On October 31, 1966 the Post Office Department issued the following staff directive:

1. When the volume of mail for a firm renting a lock box is such that delivery should be made entirely by means of a bag service, a bag service must be rented and the appropriate rental rate charged. The firm may retain the box number but on the understanding that the lock box will be relinquished in order that it may be renumbered and made available to other patrons.

2. Any lock boxes vacated in this manner are to be renumbered for reuse by other patrons, by utilizing one of the hidden numbers that exists in each section of every box assembly under our present numbering system. In renumbering a box, the appropriate number to be used would be the unused number which is nearest in sequence to the previous number of the box.

The CHAIRMAN: The Post Office has made a change in its operation, making more lock boxes available and making a charge for people who get a bag full of mail and so on. That is implemented.

36. POST OFFICE SAVINGS BANK. The Committee noted that the Post Office Department was currently giving consideration to changes required in order that unclaimed balances in the accounts of the Post Office Savings Bank may be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled. The Committee concurred in this action and insists that the Department bring the matter to a conclusion as soon as possible.

Comment by the Auditor General: In paragraph 116 of my 1966 Report to the House I mention that the Department is preparing to recommend changes in the Post Office Act.

The CHAIRMAN: This is in regard to unclaimed balances, and we recommended that they handle that the same as the chartered banks do. They are preparing to recommend changes in the Post Office Act, so it is under way.

37. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS.

The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

Exemptions are provided in the law for certain goods when purchased or imported for specified uses, farm use, for example. It is impossible to follow through every tax exempt sale or duty free importation to ensure that the goods are never used for a taxable or dutiable use, and therefore Revenue officials must accept certificates from taxpayers, importers, and purchasers, which are assumed to be given in good faith, that the goods are to be used as certified. Our investigation service, police agencies, and our audit system at times discover unreported diversions. In such cases we take action to recover duty and tax. Our experience is that such diversions are not widespread. The alternative to the system as it exists would be a tariff and tax structure in which there were no exemptions of the kind in question.

With regard to the discussion which took place at the Committee hearing of June 2, 1966, concerning certain equipment which is eligible for entry under tariff item 696(1), now number 69605-1, where such equipment is imported under rental or lease arrangements, to ensure compliance with the provisions of section 104 of the Customs Act, the relative documents are referred to the Customs and Excise Investigations Service and a good control is thereby maintained.

The Committee may be assured that the Department is aware of the necessity to strengthen its controls wherever possible to preclude loss of revenue to the Crown.

The CHAIRMAN: This is in respect of an item that is imported tax free, for agricultural purposes for instance, and then it is used for a taxable purpose. How does the Department of National Revenue follow up these cases? How do they make sure they are collecting all the revenue that is due to the Crown? Mr. Labarge, the Deputy Minister, wrote concerning our recommendations and I think this is in hand.

Mr. LONG: There is no action as yet.

The CHAIRMAN: Although there is no action yet, they are considering our recommendations and are endeavouring to come up with the answer. It is a difficult matter.

38. **DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS.** The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22 (6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

The Committee's comments on this subject have been noted by the Department.

39. **TAX EXEMPTIONS FOR PARTICULAR GROUPS.** Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

The reference is apparently to the discussions which took place at the Committee hearing on June 2, 1966, concerning certain percentage arrangements which the Department has with some manufacturers who sell relatively small articles, such as, oil filters, for both taxable and non-taxable purposes, but who do not know at the time of sale where each article will end up. Based on experience and records the percentage of total sales going into taxable and non-taxable use is established and the taxpayer pays tax on this basis. In accepting this formula method of establishing the amount of tax payable, the Department ensures that sufficient revenue is collected, but due to the impracticality of requiring a complicated series of certificates through the distribution chain it has to be assumed that the end user gets the benefit through reduced prices of the exemption provided.

The CHAIRMAN: This is in connection with schools, loggers, farmers and so on. We wanted to make sure that the exemptions granted by Parliament are

applied only in the way Parliament intended them to be applied. There is a letter from the Deputy Minister in connection with this.

Mr. HENDERSON: Mr. Chairman, there is no action yet but we are indebted to the Minister of National Revenue for the useful explanations he is furnishing to the Committee. I think that perhaps you could leave this over until we reach the appropriate paragraph in your examination of my 1966 report when you can see the whole thing in better focus.

40. CUSTOMS AND EXCISE LABORATORY. The Committee recommended that the Customs and Excise Division of the Department of National Revenue review its laboratory operations in line with the Treasury Board's objective of promoting the earning of non-tax revenue and that it institute a tariff of fees for services rendered for the benefit of exporters and/or importers designed to cover the cost of providing those services. If the Department, after reviewing its laboratory activities, is still of the opinion that establishment of a tariff of fees is not warranted, the Committee recommends that it lay the facts before the Treasury Board seeking the Board's approval for the continuation of the laboratory as a free service.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

It is considered that it would not be good policy nor in the public interest to charge fees for rulings given by the Department whether or not laboratory analysis is required to arrive at a decision.

As far as we know, this matter has not yet been submitted to the Treasury Board for a final decision.

The CHAIRMAN: This section is in regard to the operation of their own laboratory for testing chiefly chemicals and whether or not they should pay duty. The Committee felt that a charge should be made for this service. This matter is still in abeyance.

41. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 19) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating \$14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course.

Comment by the Auditor General: The Department of Finance has not yet reviewed and discussed with the Auditor General the accounting treatment involved.

42. ADVANCES TO CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION. The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of \$40 million, of which \$20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of \$143 million (less \$40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

Comment by the Auditor General: No amendments to existing legislation along the above lines have as yet been introduced. I refer to this matter again in paragraphs 56 and 194 of my 1966 Report to the House.

The CHAIRMAN: We have discussed this matter on various occasions. This concerns money which has been advanced to "Expo" or the National Capital Commission in the form of a loan when, in fact, it was an outright grant, and the Committee felt that it should be treated as a grant and appear as a budgetary expenditure.

Mr. WINCH: Mr. Chairman, may I ask a question on that?

The CHAIRMAN: Yes.

Mr. WINCH: If you will remember, we spent a long time on this matter and I think that the Committee members as a whole were really concerned about this situation. It seems to be developing and becoming worse, last year in particular. This is a case of moneys being advanced and, as we all know, they are not loans but grants. Could we ask whether the Auditor General can add anything further? He states here that he has not yet even been asked to discuss it. It seems to me rather strange, on a matter which this Committee felt was of such importance, that the Auditor General has not even yet been consulted on the matter.

Mr. HENDERSON: It is quite true that last June the Deputy Minister of Finance, when he was appearing before the Committee, outlined his reasoning on this and there was, as you say, a very complete discussion. He indicated that he proposed to undertake a complete review of the subject—

Mr. WINCH: It is now 10 months, Mr. Henderson.

Mr. HENDERSON:—and to discuss the treatment with me. Now, with all due respect, I recognize the Deputy Minister of Finance is an extremely busy person and in all fairness I myself have not perhaps followed it up as closely as I should. I do hope that before I prepare my 1967 report we will have had an opportunity to go into this. Beyond that, Mr. Chairman, we have had no advice yet from either the deputy or the Minister I have nothing more to add at this time.

Mr. WINCH: Mr. Chairman, perhaps this is a matter that we can consider at a later date. However, I do want to emphasize what I consider the importance of this matter and the responsibility that this Committee has in that connection. When we file our report to Parliament I think we are entitled to at least the courtesy of knowing that the recommendations have been considered and that consultation has taken place. When I see a matter of this importance—as I pointed out here, in one instance it is over \$14 million, and it runs into a great many millions of dollars—not being dealt with over a ten month period, with no consultations taking place, I say that it is disrespect to this Committee.

The CHAIRMAN: We did have a letter from the Minister of Finance regarding our recommendations but he did not mention this particular one. However, he did acknowledge our recommendations and handled several of them, but not this particular one.

Mr. Winch, I think this will really come to a head when “Expo” starts to wind up its books. The lid will be blown off then likely.

Mr. BIGG: I was wondering if in some cases the government was hoping to make a profit, like from “Expo”. If it went over the top and made a lot of money, presumably “Expo” would pay back this loan into the treasury.

Mr. TARDIF: It is difficult to calculate how “Expo” will pay back into the treasury. If our sales to visitors to Canada increase by several hundred millions of dollars we will get taxes on that. How would you take that into consideration?

The CHAIRMAN: Indirect benefits. As Mr. Bigg said, if they showed a profit they would return—

Mr. BIGG: Presumably they would repay this loan. I hope they show a profit.

Mr. TARDIF: So do I.

43. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Comment by the Auditor General: In paragraph 51 of my 1966 Report to the House I have listed seven important recommendations which I have made in previous Reports to the House. On March 31, 1967 the Minister of Agriculture advised as follows:

Item 1—Implemented

The Board of Review has appointed a secretary and commenced to record minutes starting with the meeting held December 8 and 9, 1966.

Items 2, 3, 4 and 5—Not implemented

I agree that it is desirable to implement these recommendations, but it is essentially a matter of legislative priority to determine when the necessary amendments to the Act might be presented to Parliament.

Items 6 and 7—Not implemented

As with all legislative items, the adoption of these recommendations and introduction of amendments to implement them are matters of Government policy. In my opinion, however, there is some doubt as to the practicability of requiring all farmers:

1. to complete a cultivated acreage report when a municipality makes an application for assistance, and
2. to set forth in their permit books a statement of grain on their farms.

The implications of these recommendations are being studied.

The CHAIRMAN: The passing of appropriate legislation is necessary to take care of this. However, the board has taken a good note of one of our recommendations. They are recording minutes which they never did before.

Mr. HENDERSON: Slow progress is being made.

The CHAIRMAN: Slow progress is being made, and the remainder requires the passage of legislation. The Minister of Agriculture acknowledged our letter containing the recommendations.

44. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of \$43,346 but the work actually performed under the contract amounted to \$130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

The system of handling extra costs within the Shipbuilding Branch, i.e. to establish, each year, charge-out rates which include fixed overhead and 10% profit in individual repair establishments, appears to the Department to provide the degree of financial control the Committee has in mind. This control is administered by field supervisors who negotiate the number of man hours and cost of material to be used in each extra work order.

The system now in use has been developed by representatives of the Department who have had experience with cost plus, target price and firm price contracts and they are of the opinion that although there are inherent difficulties in contracting for ship repairs, this method is the best of the various types of contract arrangement available for this specialized kind of work. We believe that the great problem with ship repair, and one for which no solution has been found, is its unpredictability and the form of the contract can contribute only partly in minimizing repair costs.

The CHAIRMAN: You will recall the long discussion we had about the repairing of ships, how contract prices went up as high as three times the original price, and the Deputy Minister of Transport wrote and advised, as set out above, and gave his views. At our request, and in accordance with our recommendations, they are trying to improve this system.

Mr. HENDERSON: They definitely disagree.

The CHAIRMAN: Yes, they definitely disagree with us.

Mr. HENDERSON: I think this is one item that the Committee might want to discuss at the right time.

The CHAIRMAN: Will this appear again in our 1966 report?

Mr. HENDERSON: Yes, Mr. Chairman, it will be brought forward in the 1966 report.

The CHAIRMAN: This will be coming up again. As I said the Department of Transport disagree with our recommendations.

45. COST OF SALVAGING SUNKEN VESSEL. The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

The Department intends to include the necessary legislation in amendments to the Canada Shipping Act which are being prepared for government consideration.

The Department has requested authority to introduce, in 1967, amendments to the Canada Shipping Act including:

4. To extend the present provision dealing with oil pollution to cover all forms of pollution and to provide for the recovery of the cost of removing a wreck that is a source of pollution.

The CHAIRMAN: They are proposing the necessary legislation in amendments to the Canada Shipping Act, which is being prepared for government consideration. It will take in oil pollution as well. There is disagreement in respect of one section.

46. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of \$20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of \$130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of \$20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urges the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

Consideration has been given by the Department to the suggestion that CNR should assume responsibility for procurement of ferry vessels. The conclusion has been reached that this would be uneconomical because it would require the establishment of a sizeable CNR organization which would specialize in procurement of vessels without, at the same time, relieving the Department of the need for a technically competent Shipbuilding Branch. It should be mentioned that the procurement of ferry vessels is quite different from the acquisition of rolling stock. Railway cars are standardized whereas ferry vessels are individually designed to meet the particular requirements of the service for which they are needed and each one is, in a sense, unique.

Everything possible is done to ensure that agreement on a design is reached before architects are asked to proceed with preparation of plans. Nevertheless, the Department recognizes that changing conditions sometimes make later alterations necessary and there is then the difficult choice between acknowledging the new requirements as being important enough to justify the additional cost of making changes on the one hand;

or proceeding on the basis of the original design, recognizing that it may not meet the new conditions as well as it could or should.

The Department agrees that Treasury Board should have all the necessary facts when it is being requested to approve contracts and follows this course. In addition to the submissions themselves, departmental files are available to Board staff, who frequently examine detailed aspects of submissions which are being considered; frequent discussions with this staff take place as well.

The CHAIRMAN: This was a case where communications between the CNR and the Department of Transport failed and it resulted in an increase in architects' fees by \$20,000 to \$130,000. They failed to inform Treasury Board of all the details, and the Deputy Minister of Transport wrote outlining these items and, I would say, they do not agree with us but it will be coming up again.

Mr. HENDERSON: Yes, sir; we will bring it forward in the 1966 report.

The CHAIRMAN: Now, all these others, I think will be coming up in our 1966 report. Paragraph No. 47 is next.

47. COST OF FAULTY PLANNING IN FERRY DESIGN. A non-productive payment of \$55,000 resulted when the architects working on the design of a new ferry vessel were told that provision would have to be made for rail car weights in excess of those contemplated in the original planning.

The Committee closely questioned witnesses from the Department of Transport and the Canadian National Railways in an attempt to ascertain why the proper specifications had not been established before the architects were asked to commence work. There was no question in the minds of the members of the Committee that liaison between the Department and the Railways was not as good as it should have been, but due to somewhat conflicting evidence it was not possible to establish definitely with which organization the responsibility lay.

The Committee requested the Department to see to it that in future, as directed by the Treasury Board, basic data be completely verified prior to placing it in the hands of architects for the preparation of plans and specifications.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

As the Committee suggests, the Department will attempt, insofar as is possible, to see that basic data is completely verified before it is placed in the hands of architects.

Mr. HENDERSON: That was implemented.

The CHAIRMAN: That is implemented. No. 48 is next.

48. INTERNAL AUDIT GROUP—DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES. When considering inadequate accounting and financial control procedures in the Department, the Committee was pleased to learn that the Department had been strengthened by a reorganization of its total administration, including the introduction of positions for financial and management advisers. The Committee suggested that the reorganization extend to the establishment of an internal audit group with as little delay as possible.

Comment by the Auditor General: We understand that the Deputy Minister of Indian Affairs and Northern Development (formerly Northern Affairs and National Resources) has been negotiating with the Comptroller of the Treasury to provide such a service. The Comptroller has agreed and is presently examining the departmental procedures and activities to determine what is involved and what staff will be required.

You recall that they had a poor audit system, especially in their northern divisions, and the Deputy Minister appeared before us and said he was taking steps to improve this. The Comptroller has agreed and is presently examining the departmental procedures and activities to determine what is involved, and what staff will be required. I think Mr. Henderson stated that there is an improvement.

Mr. HENDERSON: We categorized it as a slow progress item, Mr. Chairman, because we have not yet been able to see the results of the arrangements that are being made.

The CHAIRMAN: Paragraph 49 refers to inventory.

49. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Northern Affairs and National Resources to establish adequate controls on all stores in the North with the least possible delay.

Comment by the Auditor General: We are given to understand that:

- (1) the situation at Frobisher Bay is now under control;
 - (2) the situation at Fort Smith is now receiving attention;
 - (3) the other stores locations have yet to be dealt with.
- We shall be examining the situation further in due course.

Mr. HENDERSON: That is a somewhat similar situation where progress is being made.

The CHAIRMAN: Paragraph 50 is next.

50. DEPARTMENT OF EXTERNAL AFFAIRS MISSIONS ABROAD. The Committee recommended that the Department establish a small internal audit staff without delay to carry out periodic examinations of the financial transactions and related administrative procedures at its embassies and missions abroad.

Comment by the Auditor General: I am informed that the senior member of this internal audit team has been selected and will report for duty on May 1, 1967.

That is all right; they have appointed the senior member of this internal audit team, starting May 1, 1967. That is the way we like to see them handled. Next in paragraph 51.

51. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate \$450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that

managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

Comment by the Auditor General: We understand that no contracts have been negotiated since the Committee's Tenth Report 1966-67 was presented to the House on February 7, 1967.

Mr. WINCH: Could I make one comment there, Mr. Chairman?

The CHAIRMAN: Yes, Mr. Winch.

Mr. WINCH: This matter has always intrigued me, and as a result of our discussion last year, it further intrigued me. Unofficially, I discussed it with an employee, and got a somewhat different picture than I had understood before.

The CHAIRMAN: Is this CBC you are talking about?

Mr. WINCH: Yes, that is right. They explained to me, for example, the situation when the ship was breaking up off Halifax: When was it going to break up? So, they had men standing by, not working. They gave me illustrations of a VIP—a very important VIP—arriving at Ottawa. They set up; they are all set. Then the plane is delayed four or five, or so many hours and they are standing by actually being paid for time not worked. So, I now have a somewhat different picture.

I make the suggestion, therefore, if this matter is referred to again in the 1966 report, that we get more detailed information—a more detailed breakdown—of the salaries being paid for work not performed. I think a more detailed breakdown would be interesting.

Mr. BIGG: I do not know why they do not just call it “standing by” and be done with it; then we would know what we are doing.

Mr. HENDERSON: The practice we are criticizing is somewhat different from the one you describe, Mr. Winch. You may recall that we had the President and the senior officers of the Canadian Broadcasting Corporation before the Committee. We gave examples of what was taking place, and they did not disagree with the facts.

It might be that you would wish to refresh your mind by looking at that evidence, and we will take special pains to see that we have something to furnish to the Committee on the point you mentioned. It is not an easy one to follow, I would agree.

Mr. WINCH: I thought perhaps that this sort of thing—I just gave two examples—might be included in salaries and wages paid for work not performed. I would not want any misunderstanding here, so perhaps later, Mr. Henderson, you would bring us a more detailed worksheet on it.

Mr. HENDERSON: We will see that you are brought up to date with the type of examples you mention, when this item is discussed by the Committee. It appears as item 55 in my 1966 report.

Mr. BALLARD: Is it fair to say, Mr. Chairman, that this amount of \$450,000 does not include the situations outlined by Mr. Winch; that when members of

CBC staffs are standing around waiting for VIP'S, as has been mentioned, they actually are on duty and are being paid for that duty, and this \$450,000 does not include any payment of that nature?

The CHAIRMAN: You are right.

Mr. BALLARD: Then possibly the \$450,000 is the result of—I just forget the term that is used but the situation where an employee is called into work and works for an hour, but the union contract specifies that even though he works for an hour he must be paid for three or four hours.

The CHAIRMAN: That is right.

Mr. HENDERSON: That is my recollection of it, but it would be very useful to check it out again.

Mr. WINCH: We ought to have it clarified.

Mr. BALLARD: Oh, I think we should have it clarified.

Mr. HENDERSON: The testimony is quite complete on this, when the President and the officials were before the Committee.

The CHAIRMAN: Gentlemen, we want to let you out at 12 o'clock. Paragraph 52 is next.

52. SURPLUS IN DEFENCE PRODUCTION REVOLVING FUND. The Committee expressed the opinion that accumulation of revenues in revolving funds against which future losses might be charged weakens parliamentary control of public funds. If a loss occurs because amounts due to the Crown cannot be collected, or if a write-off is required because some strategic material stockpiled by the Government can only be liquidated below cost, then Parliament should be informed of and be given an opportunity to discuss such losses by means of a prompt request for an appropriation to recoup the Revolving Fund. Accordingly the Committee recommended that the surplus in the Defence Production Revolving Fund be transferred annually from that Fund as budgetary revenue.

Comment by the Auditor General: The Department has now acted on this recommendation having transferred to revenue the surplus as at March 31, 1967, which amounted to \$3,232,000.

This has been handled, and it is all right.

Mr. HENDERSON: Mr. Chairman, this is a case of where, as a result of your recommendation, over \$3 million has been transferred to Revenue.

The CHAIRMAN: And a very fundamental principle was involved there too, which has been corrected. Paragraph 53:

53. TRANSPORTATION ON LEAVE ALLOWANCE. The Committee recommended that the Department of National Defence take steps to bring its transportation allowance into line with current rail rates.

Comment by the Auditor General: This matter is further dealt with in paragraph 76 of my 1966 Report to the House. The Department is considering an amendment to the regulations which will recognize the lower rail fares.

Mr. Bigg, you were in on this.

Mr. BIGG: Yes, I will be bringing that up; I have a full letter on that which I will bring before the Committee.

The CHAIRMAN: All right.

Mr. HENDERSON: I think Mr. Bigg's interest actually is in paragraph No. 54, Mr. Chairman concerning transfer.

Mr. BIGG: Yes, transfer of personnel and their families.

Mr. HENDERSON: Yes, the executive here indicate disagreement on No. 54.

54. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90 per cent of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

Comment by the Auditor General: On March 9, 1967 the Deputy Minister of National Defence advised that:

This suggestion has been examined and there are a number of disadvantages which would make the adoption of such a proposal unattractive to the Department.

The main disadvantage is that of estimating the cost of moving furniture and effects from one place to another. Estimates of cost vary, often considerably, from actual cost, because of the virtual impossibility of accurately estimating until the van is loaded and weighed. By giving an option for an allowance in lieu of moving at public expense, verification of submitted estimates to actual weights and costs would not be possible.

There also exists the possibility of a charge for estimating when no actual move results.

Present administrative procedures within the Department would have to be retained in order to take care of personnel moved at Government expense.

The Committee should be aware that the Department is always endeavouring to obtain better rates or otherwise lower costs and any benefits thus realized would not accrue to an individual who arranged his own move.

I am sure that you will agree that these disadvantages are such that it would be unwise to consider the establishment of a cash allowance in lieu of moving costs.

Mr. BIGG: Well, I think there is more to be said on that.

The CHAIRMAN: Let us move on to paragraph No. 55.

ELEVENTH REPORT 1966-67—PRESENTED TO THE HOUSE ON FEBRUARY 7, 1967

55. CENTRAL MORTGAGE AND HOUSING CORPORATION—APPOINTMENT OF AUDITORS. The Committee strongly reiterated its previous recommendation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and that he report thereon to the House. The Committee therefore recommended that

the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation.

Comment by the Auditor General: No comment on this particular recommendation has yet been received. In this connection attention is drawn to the comments made by the Minister of Finance under Item 29, "Accounts not examined by the Auditor General" and to his conclusion that these bodies should be audited by public accountants and not by the Auditor General.

Now, so far as the Eleventh Report tabled in the House in 1967 is concerned, it is too early to expect a—

Mr. HENDERSON: We have up to date information on them. Mr. Chairman; you have answers on some of them.

The CHAIRMAN: All right. Paragraph 56:

56. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Comment by the Auditor General: We understand that this report has not yet been received by the Chairman of the Committee.

We discussed that.

No. 56 was the formal Auditor's report which we discussed earlier this morning. Paragraph 57 is next.

57. CENTRAL MORTGAGE AND HOUSING CORPORATION—SECURITIES HELD BY MORTGAGE INSURANCE FUND. The Committee recommended that in future the Corporation disclose the market value of securities held by its Mortgage Insurance Fund in its financial statements by means of either a parenthetical note against the item on the statement or a footnote to the Balance Sheet.

Comment by the Auditor General: The Corporation has shown the approximate market value of securities held in its statements as at December 31, 1965 and December 31, 1966.

You will remember that the securities in their financial statement were valued not at the market value as of the time, but they were listed—

Mr. HENDERSON: That has been implemented, Mr. Chairman. They have done that in their recently published financial statement; that is, they put the market value in a parenthetical note.

Mr. LEFEBVRE: The present market value, rather than the purchase value, as they had it?

Mr. HENDERSON: It carried a purchase value, but the market value is indicated also.

The CHAIRMAN: And their new report has corrected that?

Mr. HENDERSON: In their new report, that is shown.

Mr. WINCH: Mr. Chairman, may I ask whether you intend to call Central Mortgage and Housing Corporation this year?

The CHAIRMAN: Well, we had them last year, Mr. Winch. We may do, but I think perhaps we should consider some of the Crown corporations that we have not had and that the Auditor General does not audit. However, we will leave that for the Steering Committee to look into.

Mr. WINCH: I asked that, Mr. Chairman because of my information concerning what is going on now in connection with inspection of houses, where an inspector is supposed to handle 27 houses a day, which is impossible. What is happening now on some of the types of housing being built is just disgraceful. That is the only reason I asked whether they would be called.

The CHAIRMAN: Next is paragraph No 58.

58. CENTRAL MORTGAGE AND HOUSING CORPORATION—STATEMENT OF NET INCOME. The Committee believed that it would be more informative to Parliament if the figure shown on its Statement of Net Income and described as Administrative Salaries and Expenses were broken down by the Corporation in future into its major categories or areas of expense in accordance with generally accepted accounting practice and the practice followed by other Crown corporations on their financial statements.

Comment by the Auditor General: The recently published financial statements of this Corporation for the year ended December 31, 1966 do not provide the information requested by the Committee.

This relates to their financial statement which did not break down administrative cost of operation into salaries, and so on. We suggested that they should do it, as other Crown corporations do. They did not do it in their last report; they completely ignored our recommendation. We are not too happy about that. I do not think it is asking too much of them to break down their administrative costs. So, it is quite possible we will have them back again. Paragraph 59:

59. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months.

Comment by the Auditor General: I am informed that the Board is engaged in a review of its financial structure with the Department of Finance.

That is being followed up. They are in the process of reviewing the financial structure.

Mr. WINCH: Might I ask a question there? Are you giving thought to calling the National Harbours Board on the financial structure? I just put it this way: I understand they are contemplating perhaps \$100 million expenditure in the bank for a part loan. Is this the sort of thing we can ask them about their financial set-up, that is, as to whether they are borrowing, or bonds, or out of capital, or what?

The CHAIRMAN: We had them last fall, Mr. Winch—

Mr. WINCH: Yes, but not on this matter.

The CHAIRMAN: We went into this matter rather extensively and made these recommendations, and they are following up on our recommendations.

No. 60—Federal Losses from Bankruptcies. The Auditor says he is not aware of any action having been taken in this matter. Mr. Tasse, who is head of that department, is doing good work in the reorganization and is no doubt so busy reorganizing that he has not had a chance to do that, but I think he accepted our recommendation as a good one. The province of Quebec has a list, and I guess the other provinces—

Mr. HENDERSON: It would be rather difficult for the Superintendent to personally determine the size of the federal losses from bankruptcies. In fairness to the Superintendent I might recall that at our meeting he filed a statement and explained how he, as Superintendent of Bankruptcy, would be unable to provide such a figure. That is what led the Committee to express surprise that the federal authorities, speaking in general terms, had no knowledge of the revenue losses as a result of fraudulent bankruptcies. Now, to ascertain that revenue, it would be necessary to canvass all the federal government departments that had dealings with firms that went bankrupt and consequently, in fact, suffered losses. That would mean canvassing probably a dozen or so departments. Whether the incentive to do this could come from the Treasury or from some other central agency is something which you perhaps had under consideration. I think your point, Mr. Chairman, was that you were surprised that nobody seemed to know how much had in fact been lost. You will recall the province of Quebec was able to put a figure on it when the Mercier Report was tabled.

Mr. BIGG: I believe we also felt that the government perhaps would not act fast enough to save what little they could on the ten cent from a dollar idea?

Mr. HENDERSON: I do not recall the discussion, but I would commend to you for study the very extensive statement made by the Superintendent which was filed as an appendix to the minutes. You may remember that the Committee was a little embarrassed because there was only about five minutes to go, I think, and he had to make his presentation. However, you invited him to leave his statement and it appears in the minutes of proceedings. It is a very comprehensive statement indeed about the operation of this office.

The CHAIRMAN: All right, gentlemen. No. 61—Municipal Winter Works Incentive Program. You will recall the type of questionable practices we found were going on, and the Auditor General was going to co-operate and work with the provincial auditors on this. I am sure we want to know what progress has been made in this respect.

Mr. HENDERSON: I thought the Committee might be interested to know, Mr. Chairman, that a meeting will be held shortly which will represent the first of its kind between the Auditor General of Canada and the provincial auditors for discussion of mutual problems, of which this is one. This particular meeting will be of an informal nature seeing that it will be the first one. We are meeting in Montreal and we expect all the provincial auditors from the eastern provinces, the provincial auditor of Quebec, the provincial auditor of Ontario, and we are hoping some of the western provincial auditors will be able to fly in to join us.

This I think, will meet a suggestion made in this Committee at the time you discussed the municipal winter works incentive program when Mr. Tom Kent was before you. As I recall, Mr. Kent expressed the hope that such a meeting could be convened. We think that this is going to be a very useful beginning and hope that it will lead to closer liaison between us in the days ahead. I am much indebted to a number of the provincial auditors for their work in preparing the material for this meeting.

The CHAIRMAN: Thank you. No. 62—Parliamentary Control of Expenditure. This is in the form of a motion now on the order paper in the house. We spent a whole meeting in discussing it.

No. 63—Application of Canadian Hospital Accounting. Progress is being made in this matter and it is the Auditor's intention to report further to the house thereon in due course.

No. 64—Charitable Donations. This department has been extremely busy setting up its new operations where every charitable organization must have a number. I think we are all familiar with that. We recommended that they send out their instructions and that they despatch copies of regulations to each of the organizations but I understand that this had not been done.

Mr. HENDERSON: That is correct.

The CHAIRMAN: I do not know why they did not do that. They relied on the newspapers to put this across. Perhaps we should ask Mr. Sheppard, the Deputy Minister, who was here, just why it was not done. It is too late now.

Mr. HENDERSON: Perhaps we shall get a letter from him.

The CHAIRMAN: Yes.

Now, gentlemen, can we attach this as an appendix to our minutes? Agreed? Motion moved by Mr. Ballard and seconded by Mr. Lefebvre.

Gentlemen, I am sorry to have kept you a little overtime, but it was a lot of work, getting through that follow-up report. We have had a mighty good discussion this morning and out of it, I think, has come this thought: that when we have witnesses before us in this Committee, we come to a conclusion, a more definite conclusion than we have in the past on certain matters while these witnesses are with us because there are certain questions you have to ask, and that we be most careful in making any recommendations, and weigh them pro and con and study them well. Maybe we are trying to cover too much ground and do too much in such a short time, but you must remember that we had two Auditor General's reports to go over last year, the 1964 and the 1965. This year we only have the one and therefore we should not be pushed so much for time. This is an extremely important Committee. The eyes of the country are on this Committee and the work they are doing, and I am most anxious that we do a good job.

Next week we shall have Crown Assets Disposal Corporation before us, and I would suggest that you ask your secretaries, when you go back, to produce the financial statement of the Crown Assets Disposal Corporation. You have it in your office. We all received one. It is a green book about the size of a letterhead and it outlines many things. We will have the officials from Crown Assets together with somebody from National Defence, and we shall proceed from there with our first witness.

If there are no other questions—

Mr. WINCH: I have just one brief question, Mr. Chairman. I hope you will accept my contention, as I have been a member of this Committee for a great many years, that I personally do not remember an occasion where full consideration was not given a recommendation prior to its going from this Committee to the House of Commons. That being the case, I find myself disturbed when I read, on page 29, that there are 27 recommendations upon which no action has been taken. There are 14 upon which the executive indicated disagreement with the recommendations; so that means that of 31 recommendations out of 64, considered recommendations from this Committee, we have 31 in this category. That being the case, I would like to suggest that perhaps we might take one or two days to go over those 31 to see if we still feel that we did give the correct consideration. I think that might lay the groundwork for responsibility, which I am not saying we have not had. We have had it, in my estimation, but I think it might be a good idea for us to go over those recommendations where no action was taken or they have been rejected, just to make a study of it. That may give us, although I do not think we need it, but it may give us the thought of perhaps even more detailed study of the recommendations that will follow through from today on. I just make that suggestion because I deny that we have not given full thought to our recommendations. And when I see 31 not acted on—

Mr. HENDERSON: Forty-one.

Mr. WINCH: —out of 64 I am sorry. Yes, 41. Thank you. Forty one not acted on out of 64—then either something is wrong with this committee or the positive study of our recommendations is not being given by those responsible in the Government service.

The CHAIRMAN: And having done that, Mr. Winch, we might, after reviewing some of them, and after hearing from the ministers, decide that we will withdraw some of them and agree.

Mr. WINCH: A responsible, honest, committee.

The CHAIRMAN: Also, I might say, in fairness to the government, regardless of who is in power, a lot of these hinge on legislation and they cannot get this legislation before the House to get these amendments passed. Therefore they are not acting on them because they require legislation.

Mr. WINCH: As long as they tell us they require legislation and they are in favour, then we know where we stand.

The CHAIRMAN: Right. Meeting adjourned.

Oh, excuse me, Mr. Henderson will not be with us next week. As its Chairman, he is attending a Special Meeting of the United Nations Panel of External Auditors, but Mr. Long will be with us.

APPENDIX "35"

FOLLOW-UP REPORT BY THE AUDITOR GENERAL
TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS
ON THE ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES
IN RESPONSE TO RECOMMENDATIONS MADE BY THE COMMITTEE

In paragraph 9 of its Fourth Report 1964 presented to the House on July 28, 1964, the Committee requested the Minister of each department concerned to advise the Auditor General within three months as to what action had been taken on matters on which the Committee had made recommendations in this and future reports. The Committee also requested the Auditor General to provide to each such Minister copies of the aforementioned report and each subsequent report of the Committee to the House of Commons.

In paragraph 10 of its Third Report 1966 presented to the House on June 28, 1966 the following revised directive was issued:

- (1) in order that no matter is overlooked the Chairman of the *Public Accounts Committee* provide each Minister *and the Auditor General* with a copy of this and subsequent reports of this Committee to the House of Commons;
- (2) the Minister of each department concerned advise *the Chairman of the Public Accounts Committee and the Auditor General* within three months as to what action has been taken *or is to be taken* on matters on which the Committee has made recommendations in this and subsequent reports;
- (3) in order that the members of the Committee may be made aware of the extent to which the Government is adopting the recommendations of the Committee in relation to legislation which is proposed for Parliament, it is recommended that the Auditor General advise the Chairman, Vice-Chairman or whomsoever either may designate, from time to time, as to the status of each recommendation contained in this and subsequent reports of the Committee.

Amendments to the previous directive are indicated by underlining. Item (3) is new and in accordance therewith several matters have been brought to the attention of the Chairman of the Public Accounts Committee.

Since the Committee commenced its examination of the Auditor General's 1964 and 1965 reports on April 5, 1966, it has presented the following reports to the House:

Date presented to House

First Report 1966	April 27, 1966
Second Report 1966	April 27, 1966
Third Report 1966	June 28, 1966
Fourth Report 1966	October 17, 1966
Fifth Report 1966	October 19, 1966
Sixth Report 1966	October 24, 1966
Seventh Report 1966	October 26, 1966
Eighth Report 1966	November 3, 1966

Date presented to House

Ninth Report 1966	November 10, 1966
Tenth Report 1966-67	February 7, 1967
Eleventh Report 1966-67	February 7, 1967
Twelfth Report 1966-67	February 9, 1967
Thirteenth Report 1966-67	March 1, 1967
Fourteenth Report 1966-67	March 2, 1967

This is my report on the situation as at March 31, 1967 respecting each of the recommendations reported on in my Follow-up Report of February 28, 1966 and on each of the additional recommendations made by the Committee in the foregoing reports.

FOURTH REPORT 1963—PRESENTED TO THE HOUSE ON DECEMBER 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

In its Fourth Report 1966 the Committee stated that it feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas.

Comment by the Auditor General: In paragraph 114 of my 1966 Report to the House, tabled in the House on February 20, 1967, I stressed the urgency of this problem and gave figures showing the estimated loss in handling second class mail for the four years in which the loss had been calculated. The latest year, 1965-66, indicated a loss of \$28.1 million.

In a press dispatch on October 17, 1966 (the date the Committee's Fourth Report 1966 was presented to the House) the Postmaster General was quoted as saying that legislation will be introduced early in the 1967 session of Parliament to increase second class mailing rates.

2. DEPARTMENTAL OPERATING ACTIVITIES. The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost of staff increases. The Committee requested the

Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

Comment by the Auditor General: In paragraph 216 of my 1966 Report to the House I referred to the issuance in April 1966 of the Treasury Board policy statement on the establishment and use of working capital advances (revolving funds) which should lead to the increasing use of working capital advances by departments and agencies in circumstances where it would be to their advantage in carrying out any program or activity. In such circumstances annual financial statements would be prepared for inclusion in the departmental sections of the Public Accounts. Implementation of this program should represent a long step towards reaching the objective which I have been advocating for several years and which has been consistently endorsed by the Committee.

As indicated in paragraphs 217 to 226 of my 1966 Report to the House, a number of the larger departments and agencies involved in trading or servicing activities have reached or are progressing toward the development of financial statements along the lines recommended.

It remains my intention to keep the development of this objective under close surveillance and to continue to report thereon to the Committee.

3. INTERNAL FINANCIAL CONTROL. The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

Comment by the Auditor General: This matter was last referred to by me in paragraph 8 of my 1965 Report to the House in which I expressed the opinion that greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, some of them have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires. I do not believe the solution to these problems lies in engaging more staff but rather in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies.

In June 1966 the Treasury Board issued to all departments and agencies a guide to financial management which, to the extent it is implemented, should bring about an overall improvement in internal financial control, including internal audit. In the preface to this guide it is explained that policy had not been decided about pre-audit and certain other accounting responsibilities of the Comptroller of the Treasury.

It is my intention to keep this matter under review and to report further thereon to the house.

4. UNEMPLOYMENT ASSISTANCE. The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have

resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

In its Fourteenth Report 1966-67 presented to the House on March 2, 1967 the Committee referred to discussions it had with the Deputy Minister of Welfare concerning the Canada Assistance Plan enacted by Parliament in 1966 which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized. The Committee asked the Auditor General to follow up this matter and report further to the House thereon in due course.

Comment by the Auditor General: In paragraph 97 of my 1966 Report to the House I mentioned that regulations under the Canada Assistance Plan, which received royal assent on July 15, 1966, were being prepared and agreements with the provinces were under negotiation. There regulations were approved by Order in Council P.C. 1967-143 of January 26, 1967 and agreements have been entered into with five provinces. Agreements with the remaining provinces and two Territories are still under discussion.

It remains my intention to keep the House informed on this matter.

FOURTH REPORT 1964—PRESENTED TO THE HOUSE ON JULY 28, 1964

5. FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be instances come to his attention directly during the course of his audit brought to the notice of the House. He pointed out that while some work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not

conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regards to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

Comment by the Auditor General: In paragraph 7 of my 1965 Report I informed the House of the results of my Office's study of the findings of the Royal Commission on Government Organization relating to outdated procedures, uneconomical operations and wasteful practices. The results of this study were not reviewed by the Committee when examining my 1965 Report and the matter was referred to again in paragraph 7 of my 1966 Report to the House.

On April 5, 1967 the Minister of National Revenue and President of the Treasury Board tabled in the House a list of 29 additional recommendations of the Royal Commission on Government Organization which had been adopted by the Government on March 9, 1967. This leaves 122 recommendations not yet disposed of out of the original 276.

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee made four recommendations of which the following two have not yet been implemented:

- (a) inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations; and
- (b) inclusion of brief notes in the Estimates explaining proposed major increases in the size of staff establishments of all government departments and the Crown corporations and other public instrumentalities referred to under clause (a) above.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House.

The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

Comment by the Auditor General: The Main Estimates for 1967-68, which were tabled in the House on March 13, 1967, do not give effect to these recommendations.

7. LIVING ALLOWANCES TO FEDERALLY-APPOINTED JUDGES. In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Comment by the Auditor General: An Act to amend the Judges Act, 1966-67, c.76, which received royal assent on March 1, 1967, makes it clear that judges may not receive any extra remuneration for non-judicial services and will receive travel expenses on the same basis as for judicial duties. It is our understanding that the practice to which exception was taken by the Auditor General and the Committee has been discontinued.

8. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

Comment by the Auditor General: I am not aware of any action having been taken on this matter.

While reference was made to the status of the matter in paragraph 45 of my 1964 Report to the House, it was not fully dealt with by the Committee when considering that Report. Further comments on the use of Governor General's special warrants in the period November 1965 to January 1966 are contained in paragraph 48 of my 1966 Report to the House.

9. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry

(which was tabled on December 20, 1962) be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, indicated that it anticipated early implementation of these recommendations.

Comment by the Auditor General: There has been no change in the situation to that reported to the Committee on November 24, 1966. In paragraph 241 of my 1966 Report to the House I mention that, although the Act has not been changed, I am continuing to audit the annual financial statements of the Unemployment Insurance Fund.

10. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments.

Comment by the Auditor General: In his letter of January 26, 1967, addressed to the Chairman of the Public Accounts Committee, the Minister of Finance pointed out that a distinction has always been made between the Auditor General's personal independence and the status of the officers and employees of his Office who are civil servants and subject of the Civil Service Act. He then said:

The view reflected in the Consolidated Revenue and Audit Act, and confirmed in the Financial Administration Act, has been that employees in the Office of the Auditor General should be appointed by the body that has been established by Parliament to ensure the application of the merit principle. However, as you know, new legislation governing employment in the Public Service is being considered currently by a Special Joint Committee of the Senate and the House of Commons which will permit delegation of staffing functions to departments and agencies, including the Auditor General, if the Public Service Commission is satisfied that the office or agency has the necessary competence. It would seem to me to be entirely appropriate for you to convey the views of the Public Accounts Committee to the Special Joint Committee for its consideration when dealing with the new legislation. While differing views on the matter may be held, the new Act would appear to permit adequate powers of delega-

tion by the Public Service Commission to the Auditor General in the field of selection and appointment.

Section 6 of the Public Service Employment Act, 1966-67, C.71, which came into force on March 13, 1967, provides for this delegation of authority. However, I have not requested that authority to select and appoint staff in my Office be delegated to me because of the Committee's request (see item 33 below) that I co-operate with my legal advisers in drafting a separate Act of Parliament governing my Office. The draft Bill was made available to your Chairman and to the Minister of Finance on February 20, 1967.

FIFTH REPORT 1964—PRESENTED TO THE HOUSE ON AUGUST 5, 1964

11. CANADIAN BROADCASTING CORPORATION—REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

Comment by the Auditor General: It is now more than two and a half years since the recommendation was made and the Secretary of State has not yet tabled this official memorandum. Reference is made to this recommendation in paragraph 192 of my 1966 Report to the House.

SIXTH REPORT 1964—PRESENTED TO THE HOUSE ON OCTOBER 20, 1964

12. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop.

Comment by the Auditor General: In accordance with this request, two items are dealt with in paragraphs 76 and 77 of my 1966 Report to the House, the latter paragraph being a new item. In paragraph 73(2) of my 1965 Report I mentioned that a comprehensive evaluation of the present travel allowances was being made by the Department. However, as mentioned in paragraph 76 of my 1966 Report, this evaluation and study has been set aside until the Treasury Board has completed the same general type of survey, begun in November 1965, of the regulations covering travel on government business.

13. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

Comment by the Auditor General: The Secretary of the Treasury Board wrote to me on December 7, 1966 and informed me as follows:

In conclusion, I am of the opinion that departments are exercising reasonably good judgment in assessing penalties for accidents resulting from unauthorized use of Crown-owned vehicles—both in terms of recovering the cost of damages and imposing further disciplinary action where

justified. I consider, further, that the present penalties that can be imposed are of sufficient magnitude to act as an effective deterrent, if good managerial judgment is exercised, to such unauthorized use.

I believe the most satisfactory method of trying to eliminate unauthorized use is to place the responsibility for doing so on the management of the departments themselves, reminding deputy heads that it is their responsibility to take effective action to recover all costs and take disciplinary action where warranted. We are sending a communication to this effect to all deputy heads of agencies and departments. We are also examining the feasibility of issuing a federal government driver's manual, and of including in such a manual a section dealing with unauthorized use.

For these reasons, I do not believe further regulations providing uniform penalties applicable in all cases would materially improve the situation. It would not, in my opinion, be practicable, because of the differences in the nature of the codes of discipline involved, to apply precisely the same sanctions to members of the Armed Forces or the R.C.M.P. and to other members of the Public Service. By the same token, I question the soundness of prescribing a rigid and uniform set of regulations and penalties which would make it impossible to vary the penalties to be imposed in accordance with the exercise of management judgment as to the degree of culpability involved in individual instances.

In view of these remarks, I am undertaking a review of all 1966-67 losses of this nature and I would suggest that this recommendation be allowed to stand until my review is completed and I am in a position to make a further recommendation to the Committee.

14. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.

Comment by the Auditor General: I informed the Committee on June 9, 1966 that the Deputy Minister of Finance had advised me that he did not believe the loans should be written off but agreed that the transactions should be reflected more realistically in the financial statements of Canada. He stated that in future they would be included in the schedule to the Statement of Assets and Liabilities under a special subheading, "Recovery Likely to Require Parliamentary Appropriations".

In my opinion this does not solve the problem.

15. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

Comment by the Auditor General: On June 6, 1966 I received a letter from the Deputy Minister of Finance and at your meeting on June 16, 1966 the Deputy Minister of Finance quoted the following from this letter:

There is nothing further to report at this time as regards the outstanding accounts owed by several provinces. Treasury Board has considered the matter on several occasions but has not yet come to a decision as to whether and how the accounts should be collected or, alternatively, to recommend they be written off.

The general policy of federal assistance to provincial governments in dealing with disasters is again under consideration as a result of the Red River flood, and it is hoped that principles can be established that will lay down in advance the nature and amount of such assistance under various circumstances. Consideration will be given to these outstanding accounts in the light of such principles.

I have heard of no further developments.

16. PENSION AWARDS EFFECTIVE AT EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

In its Sixth Report 1966 the Committee noted that the departmental studies were almost complete but that it would take some time for the Department to examine them and arrive at conclusions. The Committee requested the Auditor General to keep Members of the House informed of the progress being made.

Comment by the Auditor General: Further reference to this problem is to be found in paragraph 81 of my 1966 Report to the House. The results of the studies mentioned in this paragraph are presently under examination by the Department. I understand that no conclusions have yet been reached.

17. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system.

In its Sixth Report 1966 the Committee, while noting that the study had been stopped pending completion of integration of the Armed Forces, again expressed the opinion that it is desirable that entitlement to all pensions be specific and requested the Auditor General to continue to keep the Members of the House informed of the progress being made by the Department toward revising the present system.

Comment by the Auditor General: No further information is available regarding this matter since the Deputy Minister of National Defence advised the Committee on June 9, 1966 that a study had been instituted and then stopped when it became evident that the Department might have to review the whole of its pension arrangements following integration.

18. **ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS.** The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed.

Comment by the Auditor General: In paragraph 63 of my 1966 Report to the House I stated that our test audit during 1965-66 had disclosed approximately the same incidence of error as in the preceding year.

A preliminary review of the results of our tests in 1966-67 indicates a higher incidence of error than in 1965-66 in spite of the internal auditing procedures described by the Comptroller of the Treasury to the Committee on June 16, 1966 and introduced by the Superannuation Branch with effect from July 1, 1966.

19. **INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION.** The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General.

Comment by the Auditor General: As is indicated in paragraph 207 of my 1966 Report to the House, the practice of charging interest continues unchanged. No

discussions have been initiated yet by the Department of Finance on this subject.

20. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced.

Comment by the Auditor General: On April 28, 1966 the Treasury Board, Management Improvement Branch, issued a policy directive on the subject of "Revenue and Accounts Receivable Control". I refer to this directive in paragraph 173 of my 1966 Report to the House, implementation of which should result in an overall improvement in the control of accounts receivable.

21. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93 (1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of \$100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for service rendered were considered and the reasons why they are being discarded.

Comment by the Auditor General: The Department of Finance has not provided the explanations requested by the Committee. In the meantime, the Bank Act, 1966-67, c.87, received royal assent on March 23, 1967. Section 93 of the Act reads in part:

93. (2) The bank shall not make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the

Bank of Canada or in any other bank, of for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(3) Nothing in subsection (2) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

Section 93 (3) is evidently designed to permit continuation of the practice of compensating banks indirectly for services provided to the Crown.

22. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of sub-section (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund.

Comment by the Auditor General: On October 21, 1966 the Secretary of State advised that:

I do intend to recommend to the Government that we introduce at an early date an amendment to the Canada Council Act designed to make it perfectly clear that the legislation supports legally the judgments which have been made by the Canada Council in the distribution of these funds.

No amendment has yet been introduced for this purpose.

SEVENTH REPORT 1964—PRESENTED TO THE HOUSE ON DECEMBER 7, 1964

23. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that the Committee expresses deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National

Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Comment by the Auditor General: The Department is in the process of developing one supply system for the Canadian Forces, which it is planned to have in operation by 1972. Because of the size and nature of the program and the number of studies involved, it is expected that a fully operational system providing priced inventories of stores will not be completely installed for several years.

EIGHTH REPORT 1964—PRESENTED TO THE HOUSE ON DECEMBER 7, 1964

24. HOSPITAL CONSTRUCTION GRANTS. The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that since it is inherent in the Hospital Construction

Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

Comment by the Auditor General: This recommendation was withdrawn by the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, since it appeared likely that other arrangements will be made for hospital construction.

25. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of the death of another child have been lost under the sion to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

Comment by the Auditor General: This matter has again been referred to in paragraph 140 of my 1966 Report to the House.

The committee of three persons appointed by the Treasury Board in September 1965 to survey the organization and work of the Canada Pension Commission and to prepare a report and recommendations thereon to the Minister of Veterans Affairs, has not yet submitted its report.

26. WAR VETERANS ALLOWANCES. The Committee made the following recommendations:

- (a) the Committee, after taking note of the increasing number of over-payments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

Comment by the Auditor General: In paragraph 141 of my 1966 Report to the House I have advised that the War Veterans Allowance Regulations with respect to mortgages have been changed to achieve the objective of (b) above which may now be considered to have been implemented.

No action has been taken yet regarding (a) and (c) above.

27. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following two have not yet been implemented:

- (a) Sales of goods unclaimed at Customs—that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (b) Determination of 'sale price' for sales tax purposes—that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In reiterating these recommendations in its Fifth Report 1966, the Committee stated that it was disturbed that no attention had been paid to them. The Committee then made one additional recommendation:

- (c) Refund of duty paid on goods diverted to use other than that for which they were imported—that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which

would have entitled them to entry under a different tariff item had they then been imported.

Comment by the Auditor General:

(a) On January 9, 1967 the Minister of National Revenue advised that the practice of the Department was being provided for by adding the following to the Customs Warehousing Regulations:

The Minister may in whole or in part exempt from the charges prescribed in Schedule A, goods sold pursuant to sections 23 or 127 of the Customs Act where the proceeds thereof, having first been applied to the payment of duties and taxes, are not sufficient to pay such charges in full.

We had been aware of this proposal and on December 21, 1966 had advised the Department that, in our opinion, section 273(g) of the Customs Act contemplates that warehouse charges be uniform regardless of the ultimate disposition of the goods, and that section 23 of the Act required that goods be destroyed if duty and costs are not recovered. We asked that a written opinion as to the legality of the proposed amendment be obtained from the Department of Justice. We have not as yet been provided with a copy of such an opinion.

(b) This matter has not yet been resolved and may depend on the action taken on the Report of the Royal Commission on Taxation.

(c) On January 10, 1967 the Department advised that an appropriate amendment to the Customs Act was being prepared.

28. GENERAL ELECTION EXPENDITURE. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

Comment by the Auditor General: In paragraph 57 of my 1966 Report to the House I have outlined certain financial aspects of the administration of the November 1965 general election, one of which related to the making of accountable advances to election officers. On February 3, 1967 I drew to the attention of the Chairman and Vice-Chairman of your Committee the notice of motion, appearing on page 1222 of Votes and Proceedings No. 192 of January 24, 1967, that the Standing Committee on Privileges and Elections be empowered to study the Canada Elections Act and to report to the House such proposals as the Committee may deem advisable. I suggested that your Chairman might wish to draw the Committee's recommendation to the attention of the Standing Committee on Privileges and Elections.

29. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majori-

ty of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966 the Committee repeated this recommendation.

Comments by the Auditor General: On November 29, 1966 the Minister of Finance advised that he had considered this matter with his colleagues chiefly concerned and concluded that these bodies should be audited by public accountants and not by the Auditor General. The considerations entering into this conclusion were stated by the Minister as follows:

By the very fact of incorporation, these Crown corporations are intended to have a large measure of responsibility for the performance of their statutory functions and to be able to function more or less as other companies do, and in several instances to compete with them. They are intended to be more independent than departments which are held accountable through Ministers to Parliament for day to day administration.

Indeed, because they are commercially oriented and are intended to operate at arm's length from and without the day to day governmental and parliamentary surveillance that is the case with government departments, it would seem proper that these Crown corporations should, as a matter of policy, be audited by public accounting firms that would treat and serve them in the same way as they would treat and serve any other commercial corporation. Such a policy will best ensure that the arm's length relationship and the operational independence and freedom of these corporations conferred on them by Parliament are adequately safeguarded and that the corporations have the use of the same kind of commercial accounting advice from their auditors that privately owned companies have. The practice of including the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee and enables that body to examine the reports and to call the presidents and other officers, and, if desired, the auditors before it.

The foregoing has led me to the conclusion that no change should be made in our present practices. This view is reinforced by the policy followed in the United Kingdom where, after careful consideration, the decision was taken and was subsequently confirmed after re-examination, that the accounts of the nationalized industries should be audited by public accountants and not by the Comptroller and Auditor General. You will find the considerations that led to this conclusion set out in paragraphs 29 and 32 of the Report from the Select Committee on Nationalised Industries, House of Commons Paper No. 235 of July 23, 1953.

30. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

In its Third Report 1966 the Committee reiterated this recommendation.

Comment by the Auditor General: On January 24, 1967 the Minister of Finance advised that:

...I know of no precedent for the proposal that a Committee of the House should be given the responsibility for making the nomination that is here proposed.

In considering this recommendation of the Committee, I have noted that, in accordance with the legislation of Parliament, the appointment of two officers to act as servants of Parliament—the Auditor General and the Clerk of the House of Commons—are made by the Executive and not by the Speaker or Parliament. I should think that the nomination by the Treasury Board of a person to examine the receipts and disbursements of the Auditor General's Office and to certify to the House of Commons in accordance with the outcome of his examination is wholly in accordance with these precedents. Moreover, it must be recognized that the government accepts some responsibility in regard to the Auditor General's expenditures as it must recommend them to the House of Commons. Accordingly, I do not believe any change should be made in the law.

THIRD REPORT 1966—PRESENTED TO THE HOUSE ON JUNE 28, 1966

31. THE ST. LAWRENCE SEAWAY AUTHORITY. The Committee expressed concern regarding the transaction referred to in paragraph 125 of the Auditor General's 1965 report which involved a piece of property expropriated in 1955 with the expropriation being abandoned early in 1956. The property was eventually purchased in 1964 at a substantially higher price. On November 8, 1966 the Committee asked a subcommittee to inquire into this transaction and to report back to the main Committee.

Comment by the Auditor General: The subcommittee presented its report to the Main Committee on February 23, 1967 and concluded that:

... the action of the Department of Transport in 1956 in abandoning the expropriation of certain lands in the Cornwall area was premature and ill-advised and later a larger sum of money had eventually to be paid in order to acquire this same property. Your Subcommittee also felt that the Department and the Seaway Authority should have learned of the action of the company in laying a pipeline across adjoining land owned by the government without obtaining the necessary authority to do so.

The Authority did not act in the public interest in permitting the property which had been acquired to be divided into more than one parcel for leasing purposes. By doing so, the company was able to abandon one parcel and retain the part for which it had use. As a result, the Authority did not obtain the rental which should have been paid, having in mind the value of the entire portion.

32. SALARY OF THE AUDITOR GENERAL. The Committee noted that where-as the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal has been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

Comment by the Auditor General: On January 26, 1967 the Minister of Finance advised that:

To relate the salary of the Auditor General to that of a group of senior officers whose salaries are determined by the Governor in Council would be tantamount to transferring from Parliament to the Governor in Council the right to set the Auditor General's salary. Bearing in mind the nature of the Auditor General's office, in my view there is merit in having the legislation continue to specify the amount of salary rather than have it to be determined in relation to that of a group of senior executive officers.

33. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee requested the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government.

Comment by the Auditor General: In accordance with the Committee's direction, copies of the draft legislation were submitted to the Minister of Finance and the Chairman of your Committee on February 20, 1967.

34. **STANDING COMMITTEE ON PUBLIC ACCOUNTS.** The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

As this recommendation had not been adopted up to the time the Committee presented its Thirteenth Report 1966-67 to the House on March 1, 1967, the Committee recommended that as soon as possible after commencement of the second session of the Twenty-seventh Parliament, the Standing Committee on Public Accounts be established as a committee to remain in existence until dissolution of the twenty-seventh Parliament.

The Committee further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Comment by the Auditor General: With regard to the arrangement in Australia, the Minister of Finance on January 26, 1967 advised that:

I have looked into the Australian arrangement to which the Committee refers in paragraph 16 of its Report and have found that it is a Joint Committee of the Senate and House of Representatives and not a committee solely of the House of Representatives. Under such circumstances, legislation may be necessary, but bearing in mind the traditional role of the House in the field of public expenditure, I do not believe that such an arrangement would be desirable in this country. I believe that the appointment by the House of Commons using its existing powers of a committee on Public Accounts would provide that body with all the powers that could be conferred upon it by legislation, while yet retaining a desirable flexibility that would not be present in a committee appointed under legislation.

FOURTH REPORT 1966—PRESENTED TO THE HOUSE ON OCTOBER 17, 1966

35. **CHARGES FOR POST OFFICE LOCK BOXES AND BAG SERVICE.** The Committee noted that certain Post Office patrons with a heavy volume of mail had lock boxes rented although these would not hold all the mail received and bag service was being provided to the patron without additional charge. Such patrons are thus being provided with a free service which is not available to other patrons and in some instances lock boxes are tied up which could be used by other patrons. The Committee understands that the Post Office Department has been trying to solve this problem and it insists that the Department expedite its efforts in this connection with a view to having patrons pay equally for services rendered to them and wherever possible to releasing lock boxes which are required by other patrons.

Comment by the Auditor General: On October 31, 1966 the Post Office Department issued the following staff directive:

1. When the volume of mail for a firm renting a lock box is such that delivery should be made entirely by means of a bag service, a bag service

must be rented and the appropriate rental rate charged. The firm may retain the box number but on the understanding that the lock box will be relinquished in order that it may be renumbered and made available to other patrons.

2. Any lock boxes vacated in this manner are to be renumbered for reuse by other patrons, by utilizing one of the hidden numbers that exists in each section of every box assembly under our present numbering system. In renumbering a box, the appropriate number to be used would be the unused number which is nearest in sequence to the previous number of the box.

36. POST OFFICE SAVINGS BANK. The Committee noted that the Post Office Department was currently giving consideration to changes required in order that unclaimed balances in the accounts of the Post Office Bank may be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled. The Committee concurred in this action and insists that the Department bring the matter to a conclusion as soon as possible.

Comment by the Auditor General: In paragraph 116 of my 1966 Report to the House I mention that the Department is preparing to recommend changes in the Post Office Act.

FIFTH REPORT 1966—PRESENTED TO THE HOUSE ON OCTOBER 19, 1966

37. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

Exemptions are provided in the law for certain goods when purchased or imported for specified uses, farm use, for example. It is impossible to follow through every tax exempt sale or duty free importation to ensure that the goods are never used for a taxable or dutiable use, and therefore Revenue officials must accept certificates from taxpayers, importers, and purchasers, which are assumed to be given in good faith, that the goods are to be used as certified. Our investigation service, police agencies, and our audit system at times discover unreported diversions. In such cases we take action to recover duty and tax. Our experience is that such diversions are not widespread. The alternative to the system as it exists would be a tariff and tax structure in which there were no exemptions of the kind in question.

With regard to the discussion which took place at the Committee hearing of June 2, 1966, concerning certain equipment which is eligible for

entry under tariff item 696(1), now number 69605-1, where such equipment is imported under rental or lease arrangements, to ensure compliance with the provisions of section 104 of the Customs Act, the relative documents are referred to the Customs and Excise Investigations Service and a good control is thereby maintained.

The Committee may be assured that the Department is aware of the necessity to strengthen its controls wherever possible to preclude loss of revenue to the Crown.

38. **DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS.** The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

The Committee's comments on this subject have been noted by the Department.

39. **TAX EXEMPTIONS FOR PARTICULAR GROUPS.** Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

The reference is apparently to the discussions which took place at the Committee hearing on June 2, 1966, concerning certain percentage arrangements which the Department has with some manufacturers who sell relatively small articles, such as, oil filters, for both taxable and non-taxable purposes, but who do not know at the time of sale where each article will end up. Based on experience and records the percentage of total sales

going into taxable and non-taxable use is established and the taxpayer pays tax on this basis. In accepting this formula method of establishing the amount of tax payable, the Department ensures that sufficient revenue is collected, but due to the impracticality of requiring a complicated series of certificates through the distribution chain it has to be assumed that the end user gets the benefit through reduced prices of the exemption provided.

40. CUSTOMS AND EXCISE LABORATORY. The Committee recommended that the Customs and Excise Division of the Department of National Revenue review its laboratory operations in line with the Treasury Board's objective of promoting the earning of non-tax revenue and that it institute a tariff of fees for services rendered for the benefit of exporters and/or importers designed to cover the cost of providing those services. If the Department, after reviewing its laboratory activities, is still of the opinion that establishment of a tariff of fees is not warranted, the Committee recommends that it lay the facts before the Treasury Board seeking the Board's approval for the continuation of the laboratory as a free service.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

It is considered that it would not be good policy nor in the public interest to charge fees for rulings given by the Department whether or not laboratory analysis is required to arrive at a decision.

As far as we know, this matter has not yet been submitted to the Treasury Board for a final decision.

SEVENTH REPORT 1966—PRESENTED TO THE HOUSE ON OCTOBER 26, 1966

41. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 19) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating \$14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course.

Comment by the Auditor General: The Department of Finance has not yet reviewed and discussed with the Auditor all the accounting treatment involved.

42. ADVANCES TO CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION. The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation of the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of \$40 million, of which \$20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of \$143 million (less \$40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

Comment by the Auditor General: No amendments to existing legislation along the above lines have as yet been introduced. I refer to this matter again in paragraphs 56 and 194 of my 1966 Report to the House.

43. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Comment by the Auditor General: In paragraph 51 of my 1966 Report to the House I have listed seven important recommendations which I have made in previous Reports to the House. On March 31, 1967 the Minister of Agriculture advised as follows:

Item 1—Implemented

The Board of Review has appointed a secretary and commenced to record minutes starting with the meeting held December 8 and 9, 1966.

Items 2, 3, 4 and 5—Not implemented

I agree that it is desirable to implement these recommendations, but it is essentially a matter of legislative priority to determine when the necessary amendments to the Act might be presented to Parliament.

Items 6 and 7—Not implemented

As with all legislative items, the adoption of these recommendations and introduction of amendments to implement them are matters of Government policy. In my opinion, however, there is some doubt as to the practicability of requiring all farmers:

1. to complete a cultivated acreage report when a municipality makes an application for assistance, and

2. to set forth in their permit books a statement of grain on their farms.
- The implications of these recommendations are being studied.

EIGHTH REPORT 1966—PRESENTED TO THE HOUSE ON NOVEMBER 3, 1966

44. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of \$43,346 but the work actually performed under the contract amounted to \$130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contracts subject to cost audit by government auditors.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

The system of handling extra costs within the Shipbuilding Branch, i.e. to establish, each year, charge-out rates which include fixed overhead and 10% profit in individual repair establishments, appears to the Department to provide the degree of financial control the Committee has in mind. This control is administered by field supervisors who negotiate the number of man hours and cost of material to be used in each extra work order.

The system now in use has been developed by representatives of the Department who have had experience with cost plus, target price and firm price contracts and they are of the opinion that although there are inherent difficulties in contracting for ship repairs, this method is the best of the various types of contract arrangement available for this specialized kind of work. We believe that the great problem with ship repair, and one for which no solution has been found, is its unpredictability and the form of the contract can contribute only partly in minimizing repair costs.

45. **COST OF SALVAGING SUNKEN VESSEL.** The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

The Department intends to include the necessary legislation in amendments to the Canada Shipping Act which are being prepared for government consideration.

The Department has requested authority to introduce, in 1967, amendments to the Canada Shipping Act, including:

4. To extend the present provision dealing with oil pollution to cover all forms of pollution and to provide for the recovery of the cost of removing a wreck that is a source of pollution.

46. **COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL.** The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of \$20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of \$130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of \$20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urges the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

Consideration has been given by the Department to the suggestion that CNR should assume responsibility for procurement of ferry vessels. The conclusion has been reached that this would be uneconomical because it would require the establishment of a sizeable CNR organization which

would specialize in procurement of vessels without, at the same time, relieving the Department of the need for a technically competent Ship-building Branch. It should be mentioned that the procurement of ferry vessels is quite different from the acquisition of rolling stock. Railway cars are standardized whereas ferry vessels are individually designed to meet the particular requirements of the service for which they are needed and each one is, in a sense, unique.

Everything possible is done to ensure that agreement on a design is reached before architects are asked to proceed with preparation of plans. Nevertheless, the Department recognizes that changing conditions sometimes make later alterations necessary and there is then the difficult choice between acknowledging the new requirements as being important enough to justify the additional cost of making changes on the one hand; or proceeding on the basis of the original design, recognizing that it may not meet the new conditions as well as it could or should.

The Department agrees that Treasury Board should have all the necessary facts when it is being requested to approve contracts and follows this course. In addition to the submissions themselves, departmental files are available to Board staff, who frequently examine detailed aspects of submissions which are being considered; frequent discussions with this staff take place as well.

47. **COST OF FAULTY PLANNING IN FERRY DESIGN.** A non-productive payment of \$55,000 resulted when the architects working on the design of a new ferry vessel were told that provision would have to be made for rail car weights in excess of those contemplated in the original planning.

The Committee closely questioned witnesses from the Department of Transport and the Canadian National Railways in an attempt to ascertain why the proper specifications had not been established before the architects were asked to commence work. There was no question in the minds of the members of the Committee that liaison between the Department and the Railways was not as good as it should have been, but due to somewhat conflicting evidence it was not possible to establish definitely with which organization the responsibility lay.

The Committee requested the Department to see to it that in future, as directed by the Treasury Board, basic data be completely verified prior to placing it in the hands of architects for the preparation of plans and specifications.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

As the Committee suggests, the Department will attempt, insofar as is possible, to see that basic data is completely verified before it is placed in the hands of architects.

48. **INTERNAL AUDIT GROUP—DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES.** When considering inadequate accounting and financial control procedures in the Department, the Committee was pleased to learn that the Department had been strengthened by a reorganization of its total administration, including the introduction of positions for financial and management advisers. The Committee suggested that the reor-

ganization extend to the establishment of an internal audit group with as little delay as possible.

Comment by the Auditor General: We understand that the Deputy Minister of Indian Affairs and Northern Development (formerly Northern Affairs and National Resources) has been negotiating with the Comptroller of the Treasury to provide such a service. The Comptroller has agreed and is presently examining the departmental procedures and activities to determine what is involved and what staff will be required.

49. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Northern Affairs and National Resources to establish adequate controls on all stores in the North with the least possible delay.

Comment by the Auditor General: We are given to understand that:

- (1) the situation at Frobisher Bay is now under control;
- (2) the situation at Fort Smith is now receiving attention;
- (3) the other stores locations have yet to be dealt with.

We shall be examining the situation in due course.

TENTH REPORT 1966-67—PRESENTED TO THE HOUSE ON FEBRUARY 7, 1967

50. DEPARTMENT OF EXTERNAL AFFAIRS MISSIONS ABROAD. The Committee recommended that the Department establish a small internal audit staff without delay to carry out periodic examinations of the financial transactions and related administrative procedures at its embassies and missions abroad.

Comment by the Auditor General: I am informed that the senior member of this internal audit team has been selected and will report for duty on May 1, 1967.

51. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate \$450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

Comment by the Auditor General: We understand that no contracts have been negotiated since the Committee's Tenth Report 1966-67 was presented to the House on February 7, 1967.

52. SURPLUS IN DEFENCE PRODUCTION REVOLVING FUND. The Committee expressed the opinion that accumulation of revenues in revolving funds against which future losses might be charged weakens parliamentary control of public funds. If a loss occurs because amounts due to the Crown cannot be collected, or if a write-off is required because some strategic

material stockpiled by the Government can only be liquidated below cost, then Parliament should be informed of and be given an opportunity to discuss such losses by means of a prompt request for an appropriation to recoup the Revolving Fund. Accordingly the Committee recommended that the surplus in the Defence Production Revolving Fund be transferred annually from that Fund as budgetary revenue.

Comment by the Auditor General: The Department has now acted on this recommendation having transferred to revenue the surplus as at March 31, 1967, which amounted to \$3,232,000.

53. TRANSPORTATION ON LEAVE ALLOWANCE. The Committee recommended that the Department of National Defence take steps to bring its transportation allowance into line with current rail rates.

Comment by the Auditor General: This matter is further dealt with in paragraph 76 of my 1966 Report to the House. The Department is considering an amendment to the regulations which will recognize the lower rail fares.

54. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

Comment by the Auditor General: On March 9, 1967 the Deputy Minister of National Defence advised that:

This suggestion has been examined and there are a number of disadvantages which would make the adoption of such a proposal unattractive to the Department.

The main disadvantage is that of estimating the cost of moving furniture and effects from one place to another. Estimates of cost vary, often considerably, from actual cost, because of the virtual impossibility of accurately estimating until the van is loaded and weighed. By giving an option for an allowance in lieu of moving at public expense, verification of submitted estimates to actual weights and costs would not be possible.

There also exists the possibility of a charge for estimating when no actual move results.

Present administrative procedures within the Department would have to be retained in order to take care of personnel moved at Government expense.

The Committee should be aware that the Department is always endeavouring to obtain better rates or otherwise lower costs and any benefits thus realized would not accrue to an individual who arranged his own move.

I am sure that you will agree that these disadvantages are such that it would be unwise to consider the establishment of a cash allowance in lieu of moving costs.

ELEVENTH REPORT 1966-67—PRESENTED TO THE HOUSE ON FEBRUARY 7, 1967

55. CENTRAL MORTGAGE AND HOUSING CORPORATION—APPOINTMENT OF AUDITORS. The Committee strongly reiterated its previous recommen-

dation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and that he report thereon to the House. The Committee therefore recommended that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation.

Comment by the Auditor General: No comment on this particular recommendation has yet been received. In this connection attention is drawn to the comments made by the Minister of Finance under Item 29, "Accounts not examined by the Auditor General" and to his conclusion that these bodies should be audited by public accountants and not by the Auditor General.

56. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Comment by the Auditor General: We understand that this report has not yet been received by the Chairman of the Committee.

57. CENTRAL MORTGAGE AND HOUSING CORPORATION—SECURITIES HELD BY MORTGAGE INSURANCE FUND. The Committee recommended that in future the Corporation disclose the market value of securities held by its Mortgage Insurance Fund in its financial statements by means of either a parenthetical note against the item on the statement or a footnote to the Balance Sheet.

Comment by the Auditor General: The Corporation has shown the approximate market value of securities held in its statements as at December 31, 1965 and December 31, 1966.

58. CENTRAL MORTGAGE AND HOUSING CORPORATION—STATEMENT OF NET INCOME. The Committee believed that it would be more informative to Parliament if the figure shown on its Statement of Net Income and described as Administrative Salaries and Expenses were broken down by the Corporation in future into its major categories or areas of expense in accordance with generally accepted accounting practice and the practice followed by other Crown corporations on their financial statements.

Comment by the Auditor General: The recently published financial statements of this Corporation for the year ended December 31, 1966 do not provide the information requested by the Committee.

TWELFTH REPORT 1966-67—PRESENTED TO THE HOUSE ON FEBRUARY 9, 1967

59. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months.

Comment by the Auditor General: I am informed that the Board is engaged in a review of its financial structure with the Department of Finance.

60. **FEDERAL LOSSES FROM BANKRUPTCIES.** The Committee expressed surprise that the federal authorities had no knowledge of the revenues lost as a result of fraudulent bankruptcies and requested that these figures be obtained and provided to it.

Comment by the Auditor General: I am not aware of any action having been taken on this matter.

THIRTEENTH REPORT 1966-67—PRESENTED TO THE HOUSE ON MARCH 1, 1967

61. **MUNICIPAL WINTER WORKS INCENTIVE PROGRAM.** The Committee discussed the practices set out in the 1965 Report of the Auditor General to the House with the Deputy Minister and officials of the Department of Manpower and Immigration and was informed that while a majority of these unsatisfactory practices continued in claims received during the fiscal year 1965-66, there had been a substantial improvement in the situation since April 1, 1966.

Members of the Committee expressed considerable concern at the type of questionable practices which had developed in the administration of the winter works incentive program and the Committee has requested the Auditor General to continue to watch the situation closely and advise the House thereon in due course.

Comment by the Auditor General: In paragraph 74 of my 1966 Report to the House I refer to changes in the terms and conditions, for the 1966-67 program year, designed to prevent any possible misunderstanding of the intent of the program and to curb the questionable practices referred to in my previous Reports.

It is my intention to follow up on this matter and to report thereon to the House.

62. **PARLIAMENTARY CONTROL OF EXPENDITURE.** The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted the following recommendations designed to strengthen parliamentary control of public expenditures in the future:

1. (a) that the business of the House be so arranged that consideration of the annual main estimates by the various committees of the House and by the House itself be completed within three months of the tabling of these estimates; and

- (b) that when consideration of all or part of any year's main estimates has not been completed by the commencement of the fiscal year to which they relate, thus making interim supply a necessity, the first interim supply bill include provision for a period of one, two or three months up to a date three months from the end of the month in which the estimates were tabled.
2. that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

Comment by the Auditor General: I am not aware of any action having been taken yet on this matter.

FOURTEENTH REPORT 1966-67—PRESENTED TO THE HOUSE ON MARCH 2, 1967

63. APPLICATION OF CANADIAN HOSPITAL ACCOUNTING MANUAL TO FEDERAL HOSPITALS. The Deputy Minister of Health informed the Committee that a financial management project team is presently studying this matter and it is expected that their recommendations will be implemented in 1967 or 1968. The Committee has asked the Auditor General to follow up this matter and report further to the House thereon in due course.

Comment by the Auditor General: I understand that progress is being made on this matter and it is my intention to report further to the House thereon in due course.

64. CHARITABLE DONATIONS. While the Committee was pleased to learn of the steps taken to implement recommendations made by the Auditor General in his 1965 Report to the House, members of the Committee felt that the Taxation Division had a responsibility to send the new regulations and attendant forms to the 1,200 organizations on the headquarters list of charitable organizations. The Committee considers that this is a service to which taxpayers are entitled and it recommended that the Division despatch copies of the regulations and attendant forms to each of the organizations whose names and addresses were recorded on the headquarters list.

Comment by the Auditor General: I understand that this has not yet been done.

Summary of the position at March 31, 1967
of the above Committee recommendations

Category	Items	Number
No action as yet	1, 6, 8, 9, 11, 15, 16, 17, 22, 23, 25, 28, 33, 36, 37, 38, 39, 40, 51, 53, 56, 58, 59, 60, 62, 63, 64	27
Executive has indicated disagreement with recommendation	10, 13, 14, 19, 29, 30, 32, 34, 41, 42, 44, 46, 54, 55	14
Slow progress being made;	2, 3, 5, 12, 20, 26, 27, 43, 48, 49, 50	11
Implemented	7, 31, 35, 47, 52, 57	6
Soon to be implemented	4, 45, 61	3
Action taken not satisfactory	21	1
Action taken not producing results	18	1
Withdrawn by Public Accounts Committee	24	1
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Ottawa, March 31, 1967.

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